

MEETING OF THE BOARD OF REGENTS, STATE OF IOWA, AS THE BOARD OF TRUSTEES OF THE UNIVERSITY OF IOWA HOSPITALS AND CLINICS

March 21, 2006
Ottumwa, Iowa

- | | | | |
|-----------|------|---|---|
| | I. | Introductory Comments | David J. Skorton; President, The University of Iowa |
| (30 Min.) | II. | Department of Otolaryngology | Donna Katen-Bahensky, Director and Chief Executive Officer
Bruce Gantz, M.D.; Professor and Head, UI Department of Otolaryngology–Head and Neck Surgery; Brian F. McCabe Distinguished Chair in Otolaryngology–Head and Neck Surgery |
| (15 Min.) | III. | A. Operating and Financial Performance Report FY2006 Through December, 2005 Including Institutional Scorecard | Donna Katen-Bahensky |
| (15 Min.) | | B. FY2007 Environmental Assessment | Donna Katen-Bahensky |
| (15 Min.) | | C. IowaCare Update | Donna Katen-Bahensky |
| (15 Min.) | | D. Director's Report | Donna Katen-Bahensky |

Department of Otolaryngology

Bruce Gantz, M.D.

Professor and Head, Department of Otolaryngology–Head and Neck Surgery,
Brian F. McCabe Distinguished Chair in Otolaryngology–Head and Neck Surgery

Department of Otolaryngology— Head and Neck Surgery

**Bruce J Gantz
Professor and Head**



**UNIVERSITY
of IOWA
HEALTH CARE**

Historical Perspective

1871: Lectureship in Ophthalmology and Otology

1903-1927: Lee Wallace Dean: 1st Department Head

1925: Separated Otolaryngology
and Ophthalmology

1927-1964: Dean Lierle

1964-1994: Brian McCabe

1995- : Bruce Gantz

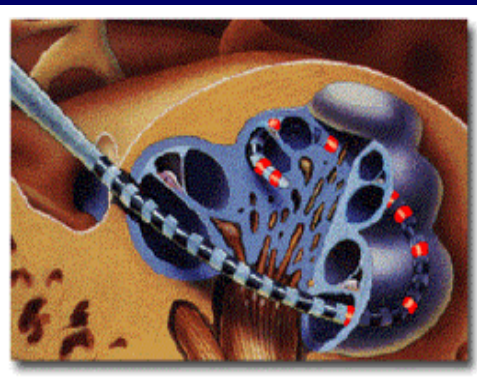


National and International Stature

- **US and New World Report**

- Department has been ranked 1-3 past 16 years of rankings

- **World Leader in Cochlear Implant Research**



- » 1st Multichannel implant in US- 1982
 - » 1st Congenitally Deafened Child to receive implant worldwide- 1987
 - » 1st Bilateral Cochlear Implantation at same Surgery 1996
 - » Pioneered telemetry system to evaluate residual auditory nerve function
 - » Hybrid Cochlear Implant combines acoustic and electrical processing
 - » Only NIH Sponsored Clinical Research Center for Cochlear Implants

- **Cleft Palate Multidisciplinary Team Care and Research- 1950's**
- **Leader in identification of genes responsible for hearing loss**
- **National Leader in Head and Neck Cancer**
- **MD faculty with NIH External Support**
- **Research Training in Otolaryngology**

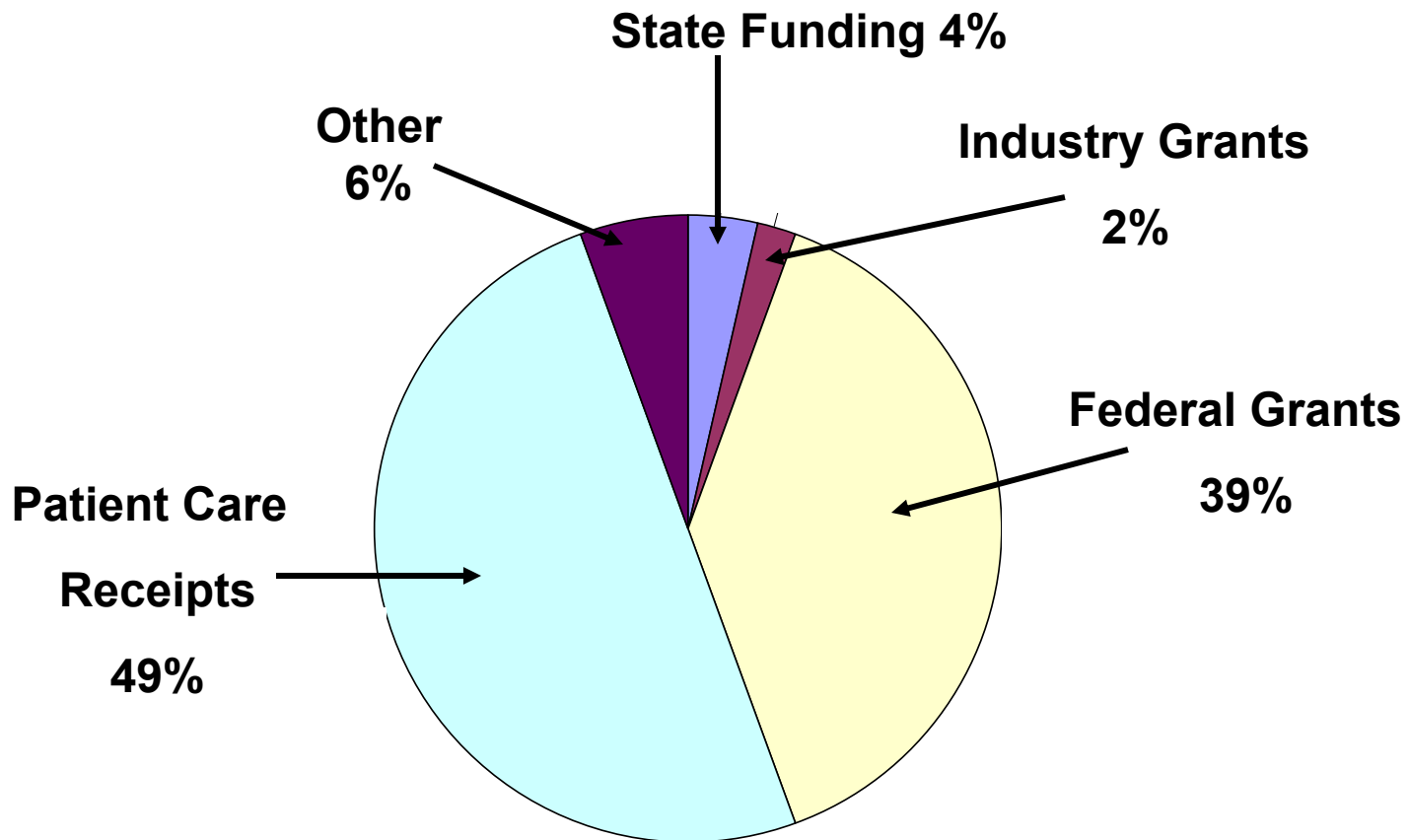
Department Today

Physicians N=15 PhD Scientists N=4
Joint Appointment Faculty N=13

- **Otology/Neurotology:**
 - 2 Faculty
- **Head and Neck Oncology:**
 - 4 Faculty
- **Pediatric Otolaryngology**
 - 3 Faculty
- **Plastic and Reconstructive Surgery of the Head and Neck:**
 - 2 Faculty
- **Rhinology/Sinus Disorders:**
 - 1 Faculty
- **Laryngology/Voice Disorders/Swallowing:**
 - 2 Faculty
- **General Otolaryngology:**
 - 2 Faculty
- **Otolaryngology Research:**
 - 2 PhD Faculty + 4 PhD Research Scientists + 13 Joint Faculty

Department Budget FY-06

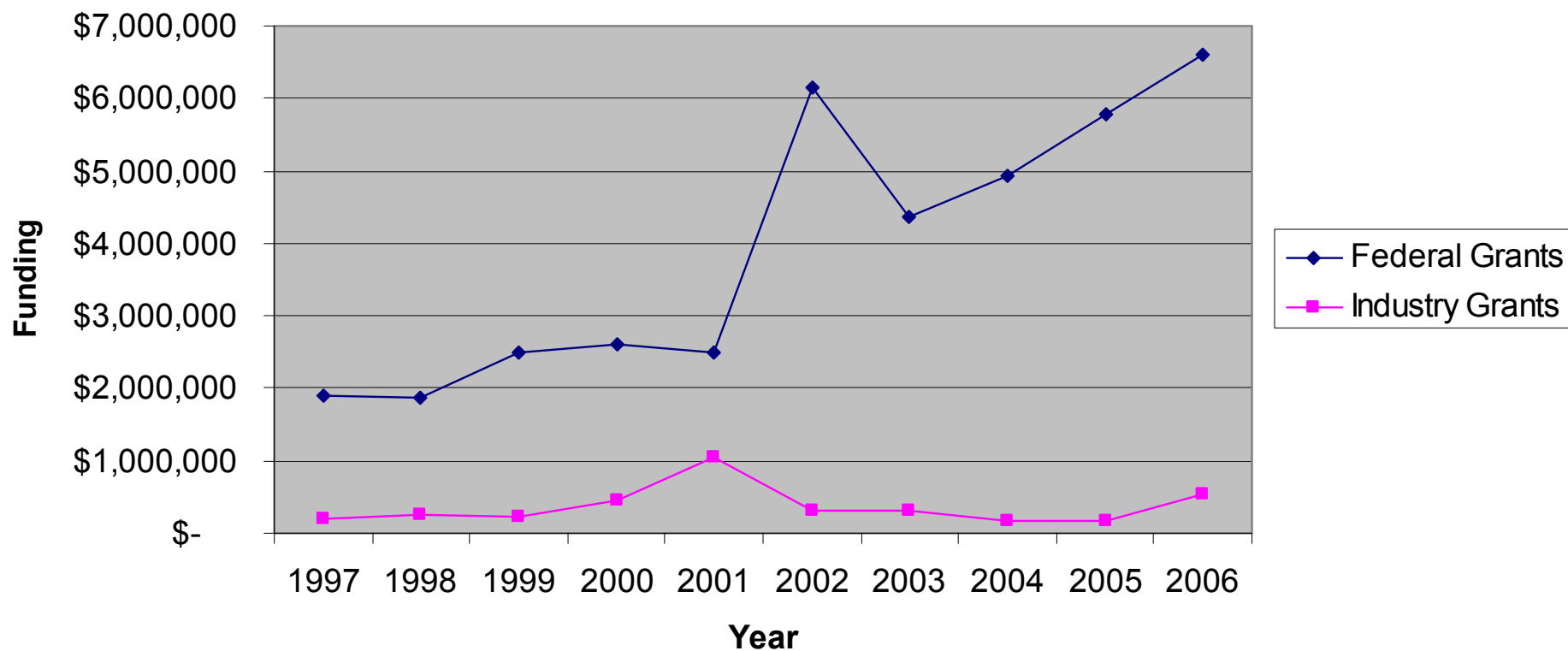
\$15 Million



Department of Otolaryngology– H&NS

External Support

Grant Funding FY 1997-2006



Number of Federally Supported Faculty and Staff N=79

Research: Auditory Science

- **Iowa Cochlear Implant Clinical Research Center**
 - NIH Funding 1985-2006: \$28,247,564 (+\$11m 2006-11)
- **Molecular Genetics of Hearing Loss**
 - NIH Funding 1992-2006: \$10,671,508
- **Neurophysiology of Hearing**
 - NIH Funding 1996-2006: \$4,816,439
- **Tinnitus Research**
 - NIH Funding 2004-2009: \$1,609,405

<u>Direct Costs</u>	<u>Indirect Costs</u>	<u>Total Funds</u>
\$33,110,507	\$13,234,409	\$46,344,916
		(+\$11m 2006-11)

Department of Otolaryngology– H&NS Faculty

Faculty Federal Grants

Bruce Gantz: (3) P50, T-32, U0-1 (NIDCD)

Richard Smith: (3) R01 X 3 (NIDCD)

Gerry Funk: (1) R01 (NCI)

Jose Manaligod: (2) K23, R01 (NIDCD)

John Lee: (2) KO8 (NIDCD), Merit Award (VA) **

Marlan Hansen: (1) K08 (NIDCD) **

Doug Van Daele: (1) K08 (NIDCD) **

Doug Trask: (1) K08 (NCI)

Richard Tyler**: (1) R01 (NIDCD)

Charles Miller**: (1) R01 (NIDCD)

**PhD

** T- 32 Trainee

Department of Otolaryngology– H&NS

Best Practices

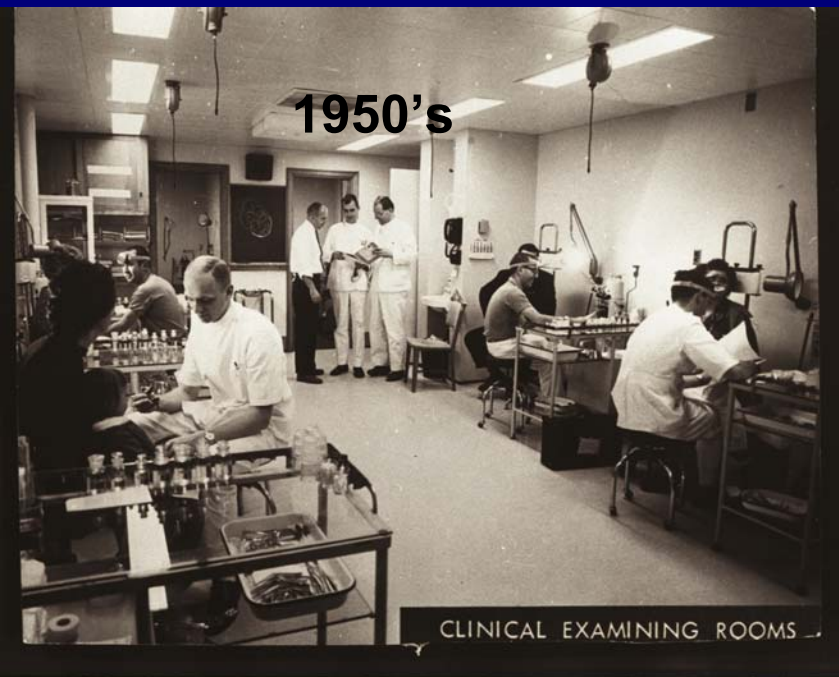
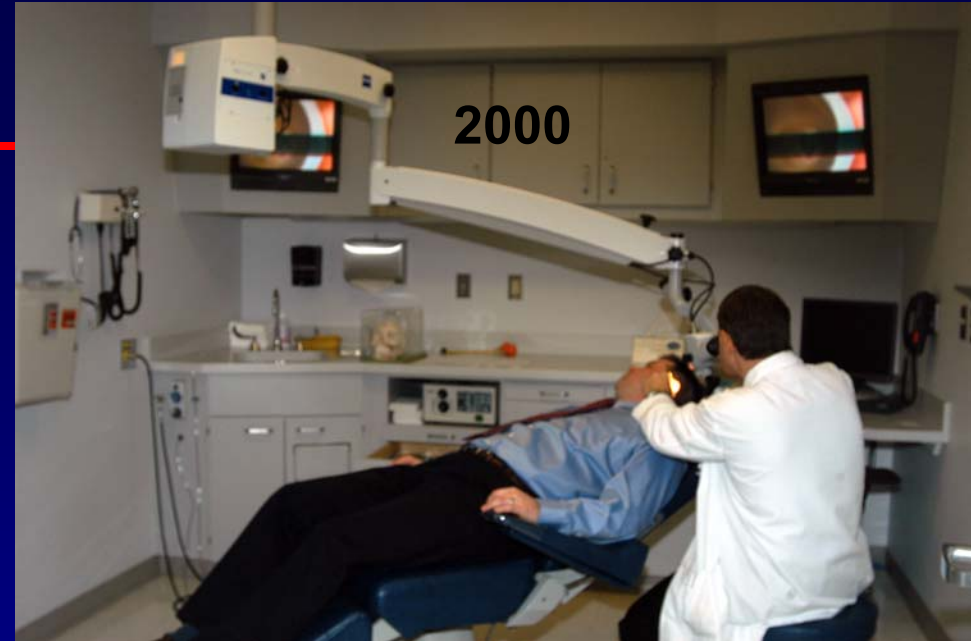
Informal Survey of Top 8 Oto Departments

Institution	Tenured or Tenure-track PhDs	R01s	Soft money Research PhDs	R01s	Total Res PhDs	grants			Clinically active MDs	R01s/P awards	K-awards
Iowa	2	1	3	1	2	2			15	7	5
1	3	4	9	3	12	8			19	4	4
2	12	21	1	1	13	22			15	0	0
3	23	23	-----	---	23	23			20	6	1
4	2	3	4	3	6	6			31	1	1
5	10	14	8	4	18	18			19	3	0
6	4	7	6	8	10	15			25	5	5
7	3	8	7	4	10	12			19	4	2

Patient Care

Clinic Visits: 40,699

Operations: 2644



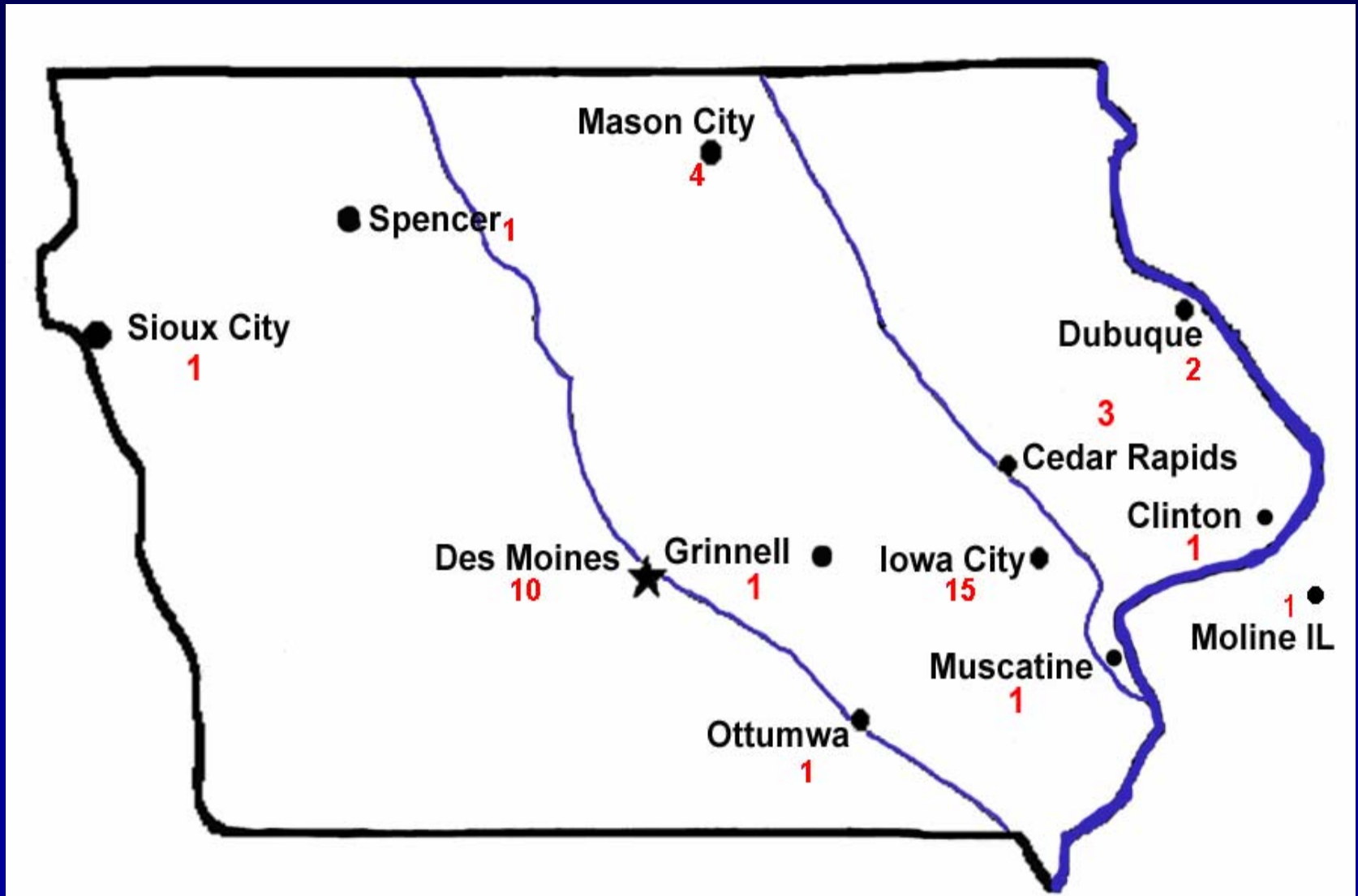
Education

- **Medical Student**
 - Junior Clerkship
 - Senior Elective
- **Residents**
 - Clinical Track: 5/year X 5 years: 25
 - Research Track: 2/year X 2 years: 4
- **Fellows**
 - Otology/Neurotology: 1
 - Pediatric Otolaryngology: 2
 - Head and Neck Oncology: 1
 - Rhinology: 1



Graduate Residents Practicing in Iowa

41/85 Otolaryngologists



Department of Otolaryngology– H&NS

T-32 Training Grant 1993-

- **2 Trainees/year X 2 years: Salary NIH**
- **Program of Research developed during PGY-1**
 - **must work with NIH funded Researcher**
 - **Can be in any Department in COM or University**
- **Now NIDCD and Otolaryngology Standard**
- **Trainees now in Academic Positions = 5/7**

Translational Research

- **Iowa Cochlear Implant Clinical Research Center**
- **Iowa Center For Auditory Regeneration**
- **Iowa Head and Neck Oncology Research**

Iowa Cochlear Implant Clinical Research Center

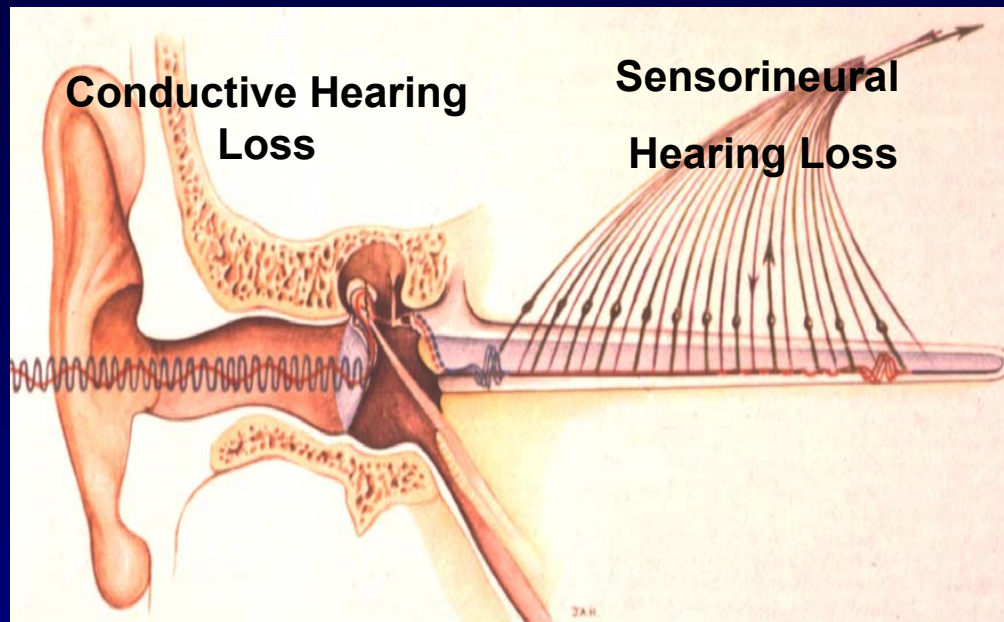
Cochlear Implants to Cure Deafness

Bruce Gantz, Richard Tyler, Paul Abbas,
Carolyn Brown, Bruce Tomblin, Kate Gfeller

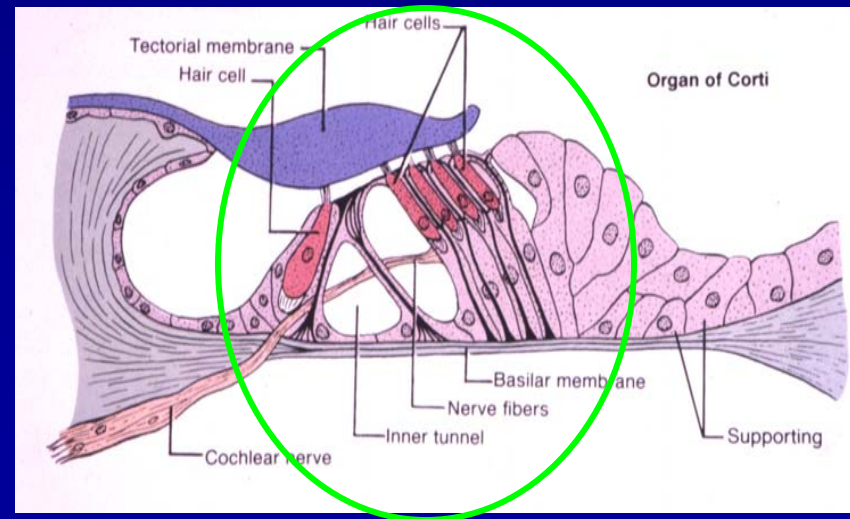
- Multidisciplinary Team has successfully been funded since 1985.
 - Colleges of Medicine, Liberal Arts (Psychology, Music), Engineering, and Public Health

Hearing Loss

- **Third most prevalent chronic condition in older adults after hypertension and arthritis**
 - 25-40% of those 65 or older are hearing impaired
- **Prevalence rises with age**
 - Over 75 years = 40-66%
 - Over 85 years = 80%
- **1/1000 Children Born Deaf (95% to hearing Parents)**
- **10% of US Population- Significant Hearing Impairment**
- **Noise Exposure: Farming large problem in Iowa**



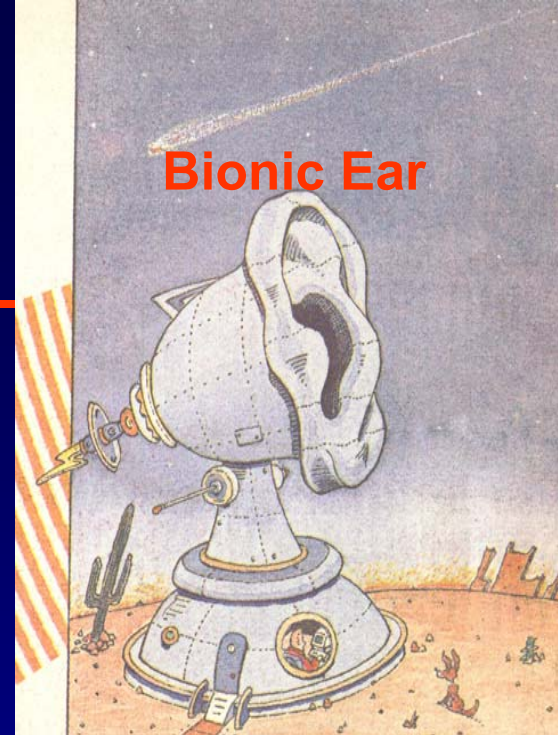
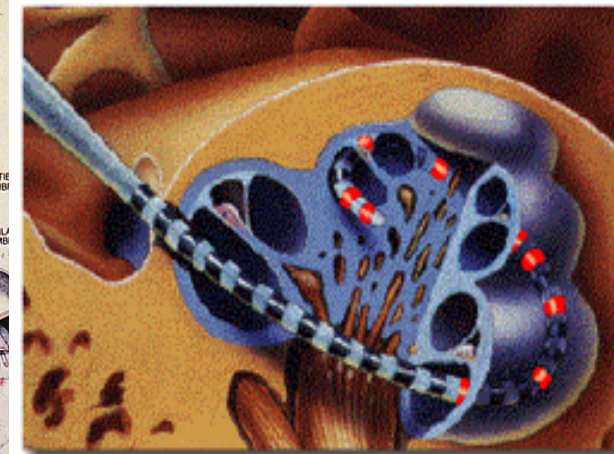
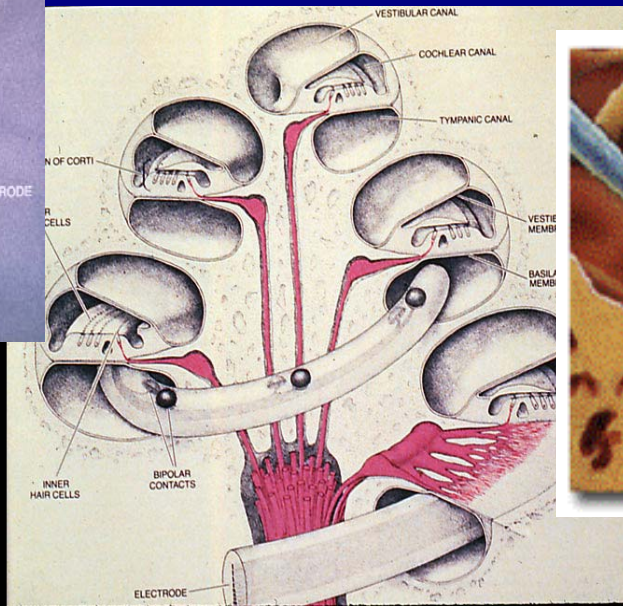
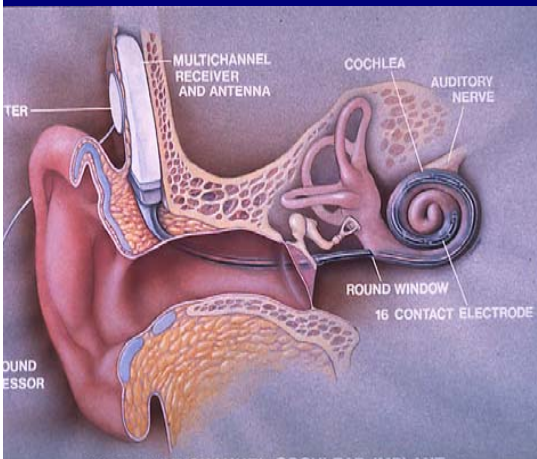
ANATOMY Of DEAFNESS



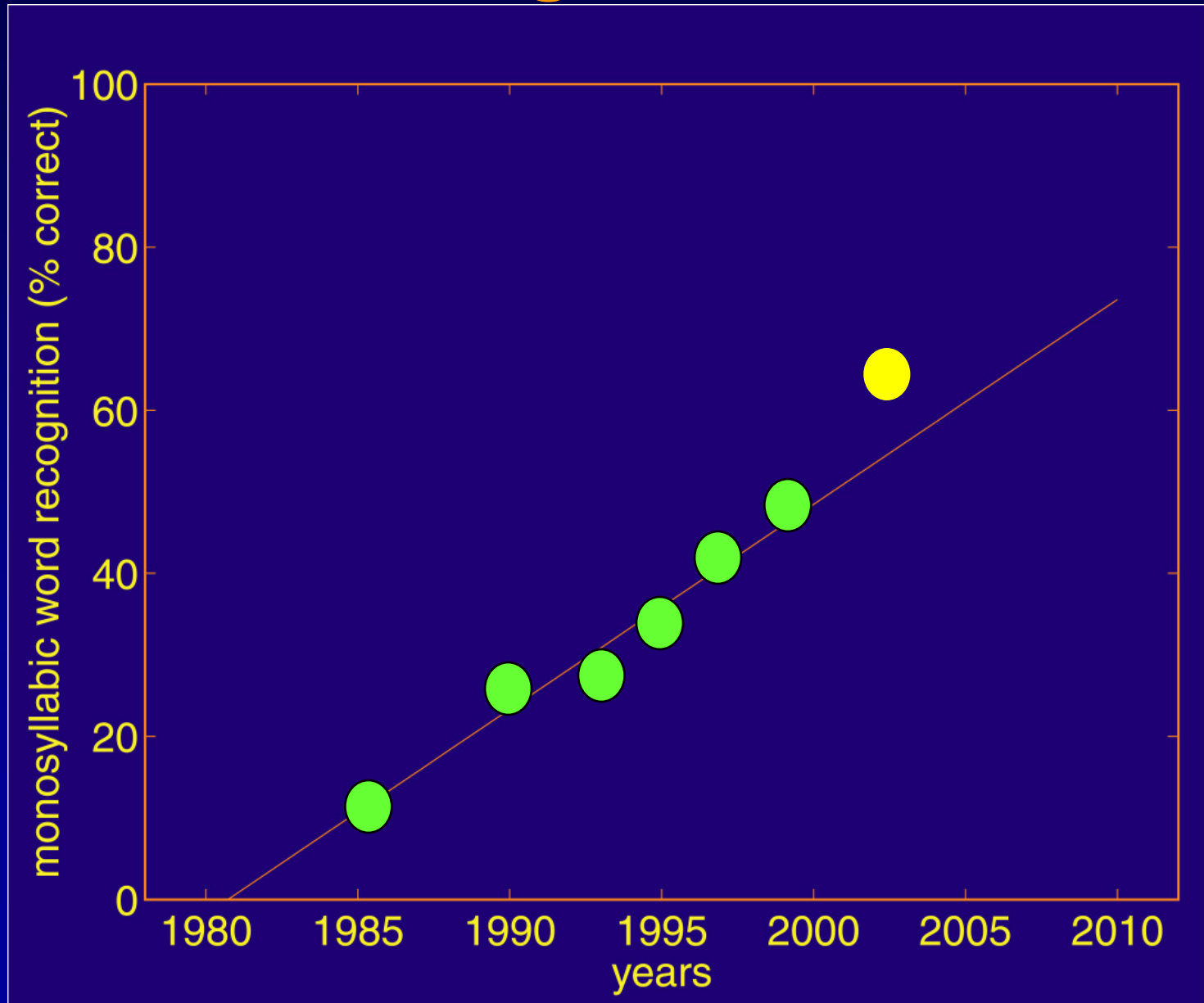
Neurosensory Hearing Loss: Management

Profound Deafness Cochlear Implants

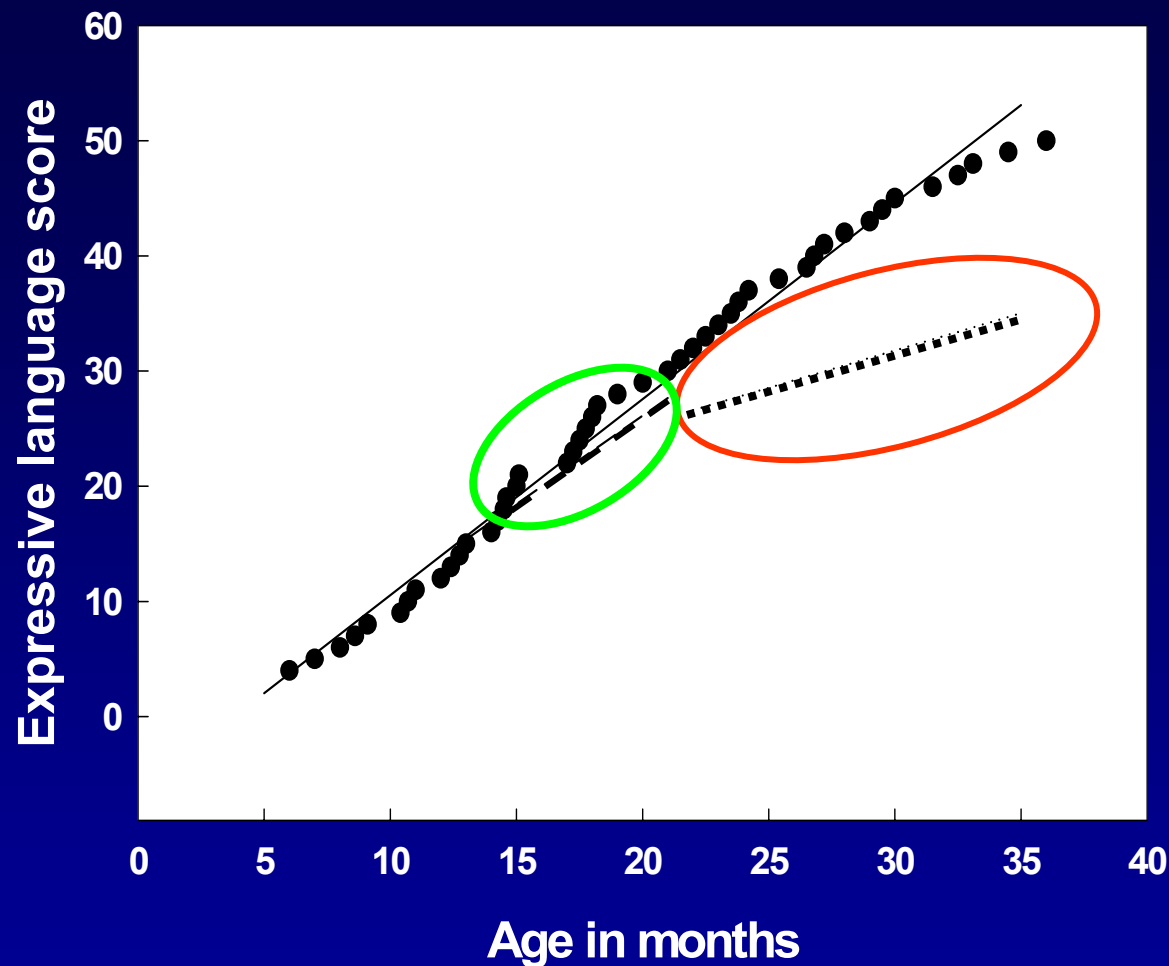
- » congenitally deafened children (1- 12yrs)
- » postlingually deafened adults



Monosyllabic Word Scores over Time: Post Lingual Adults



Age at Implantation: Effect on Language Growth Rate



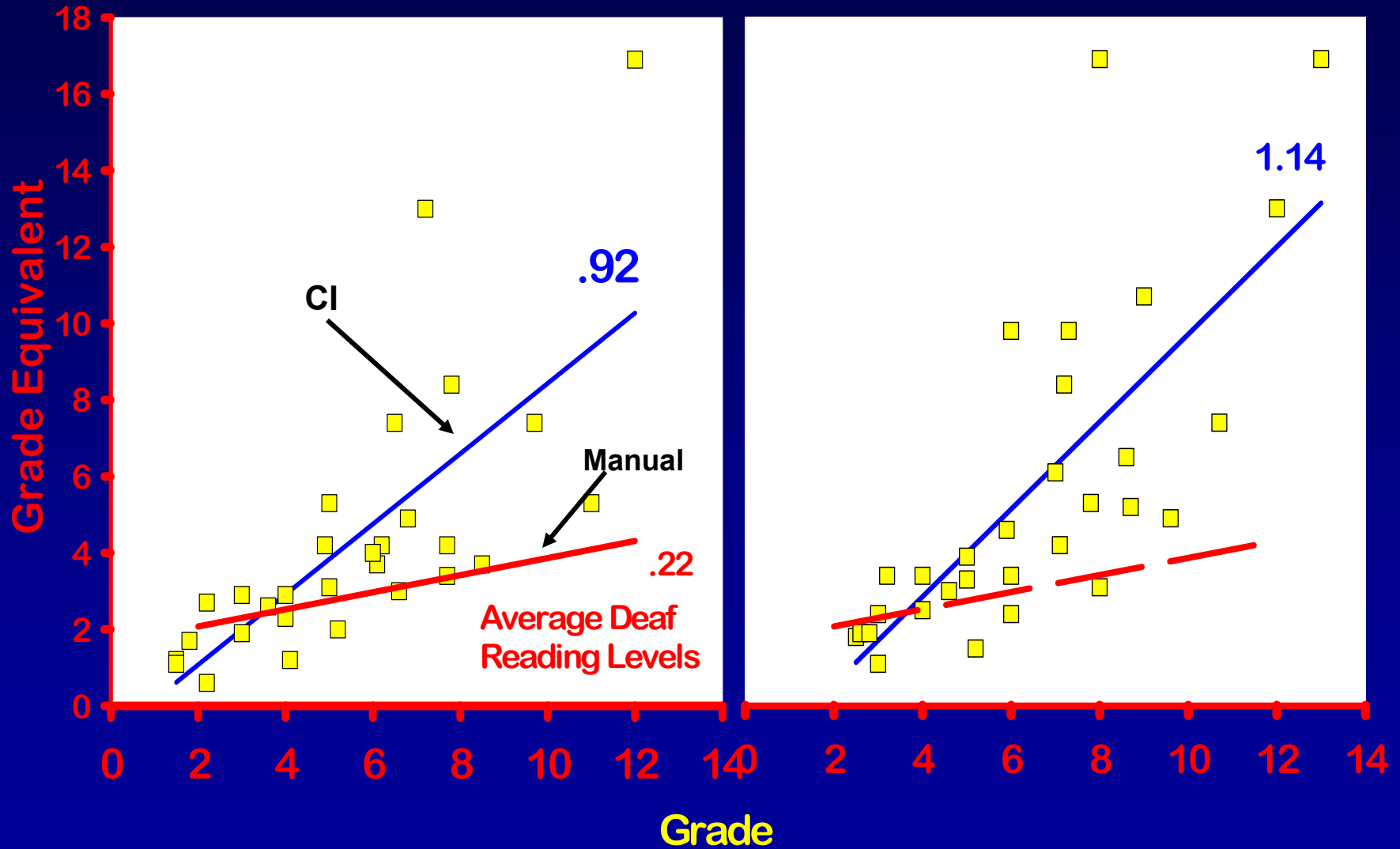
Tomblin, Barker,
Spencer, Zhang,
Gantz, 2005

- Normals
- Linear growth curve for normals
- Linear growth for CI users with initial stim at 13 months of age
- Growth curve for the study sample (initial stim age = 22 months)

Child Implanted at 15 months

Reading Levels and Education

Improvement Over Time



TB: '06 Grad UI College of Engineering



“4 year member U of I Marching Band”

Iowa Cochlear Implant Clinical Research Center

Acoustic + Electric Hearing to Improve Word Understanding in Quiet and Noise

Bruce Gantz, Chris Turner, Kate Gfeller

Iowa/Nucleus Freedom Hybrid II



Restoring Hearing to
Aging Baby-Boomers
and Severely Hearing
Impaired

Expanding Indications for Electrical Speech Processing

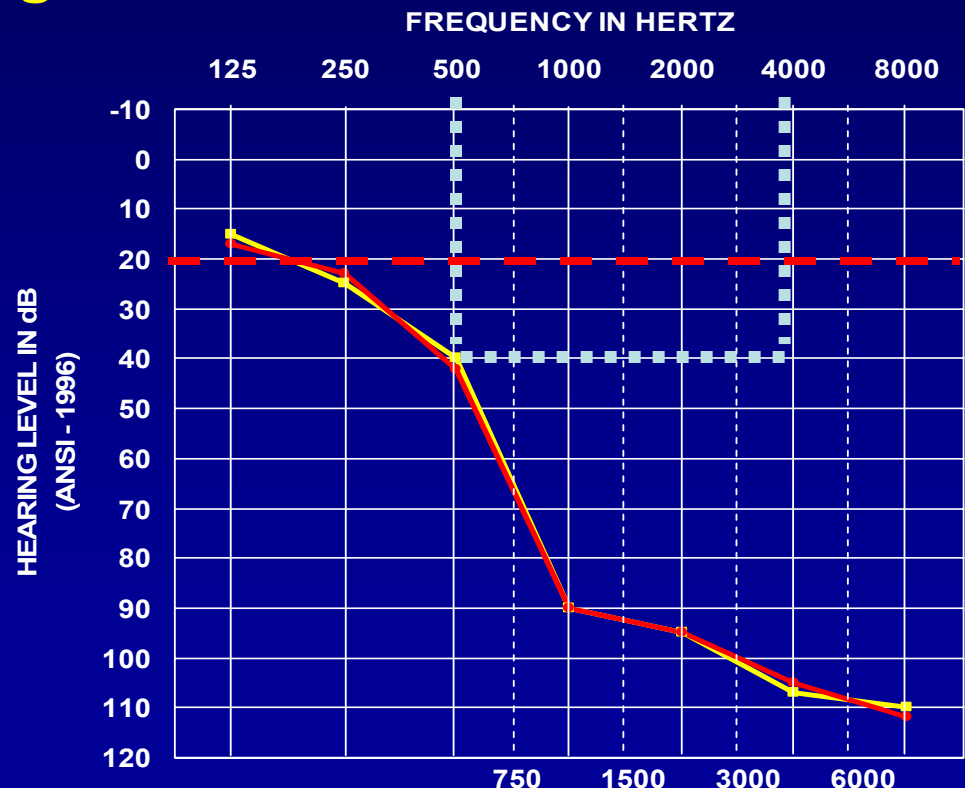
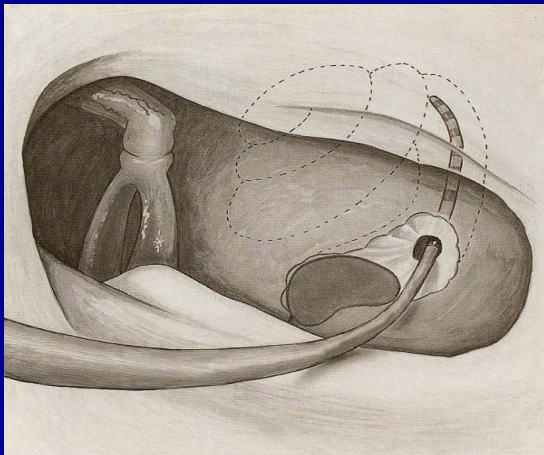
FDA Feasibility Trial- Approved 1998

New Cochlear Implant Design

short electrode-
(0.2 X 0.4mm X 6mm/ 10mm)-

Subjects

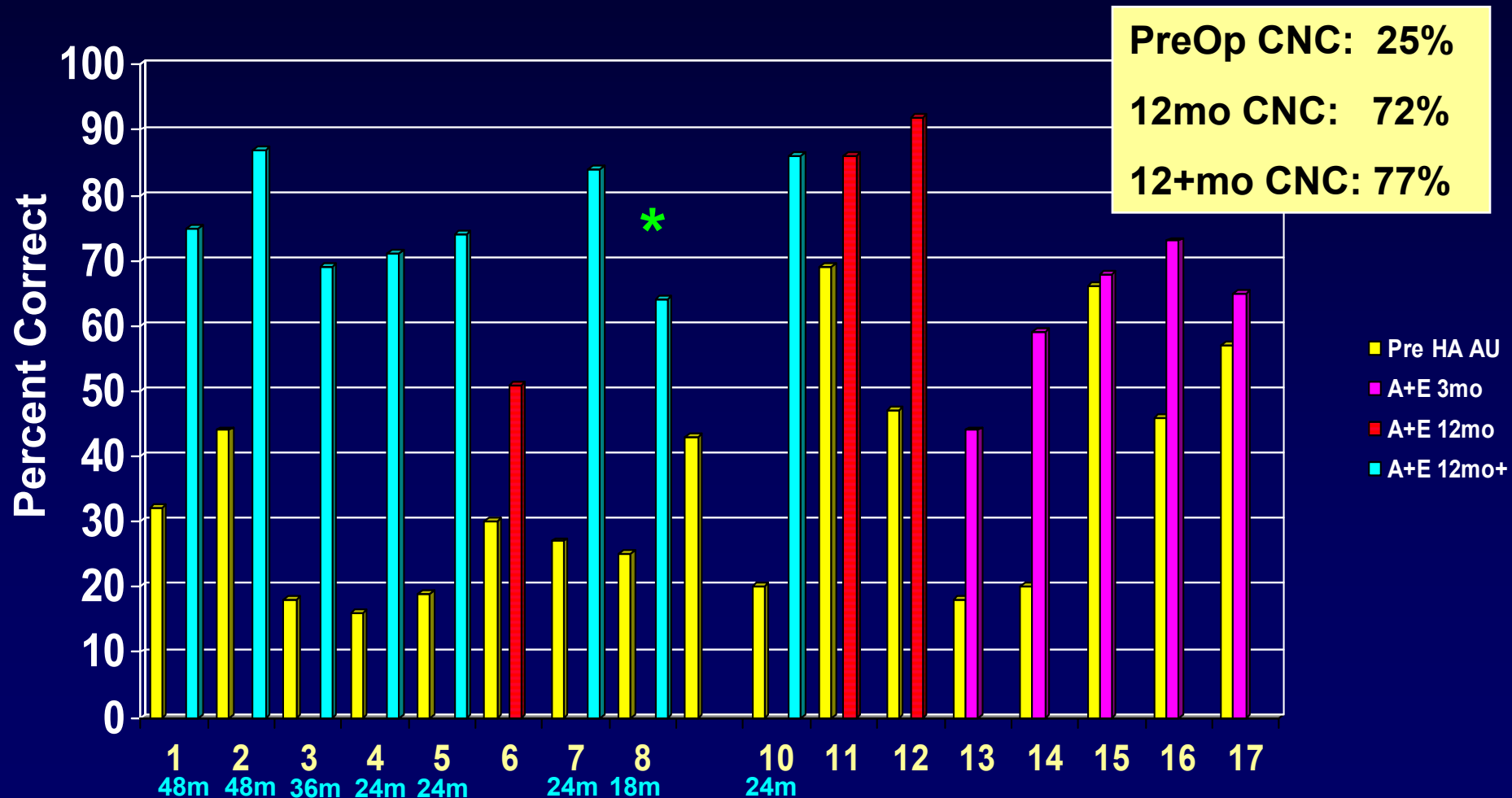
- 1) 6mm N=3 (1999-2000)
- 2) 10mm N=19 (2000-2006)
- 3) US FDA Trial N=62



Word Recognition Score
R = 26% L = 30%

CNC Word Scores Over Time

Iowa 10mm Subjects



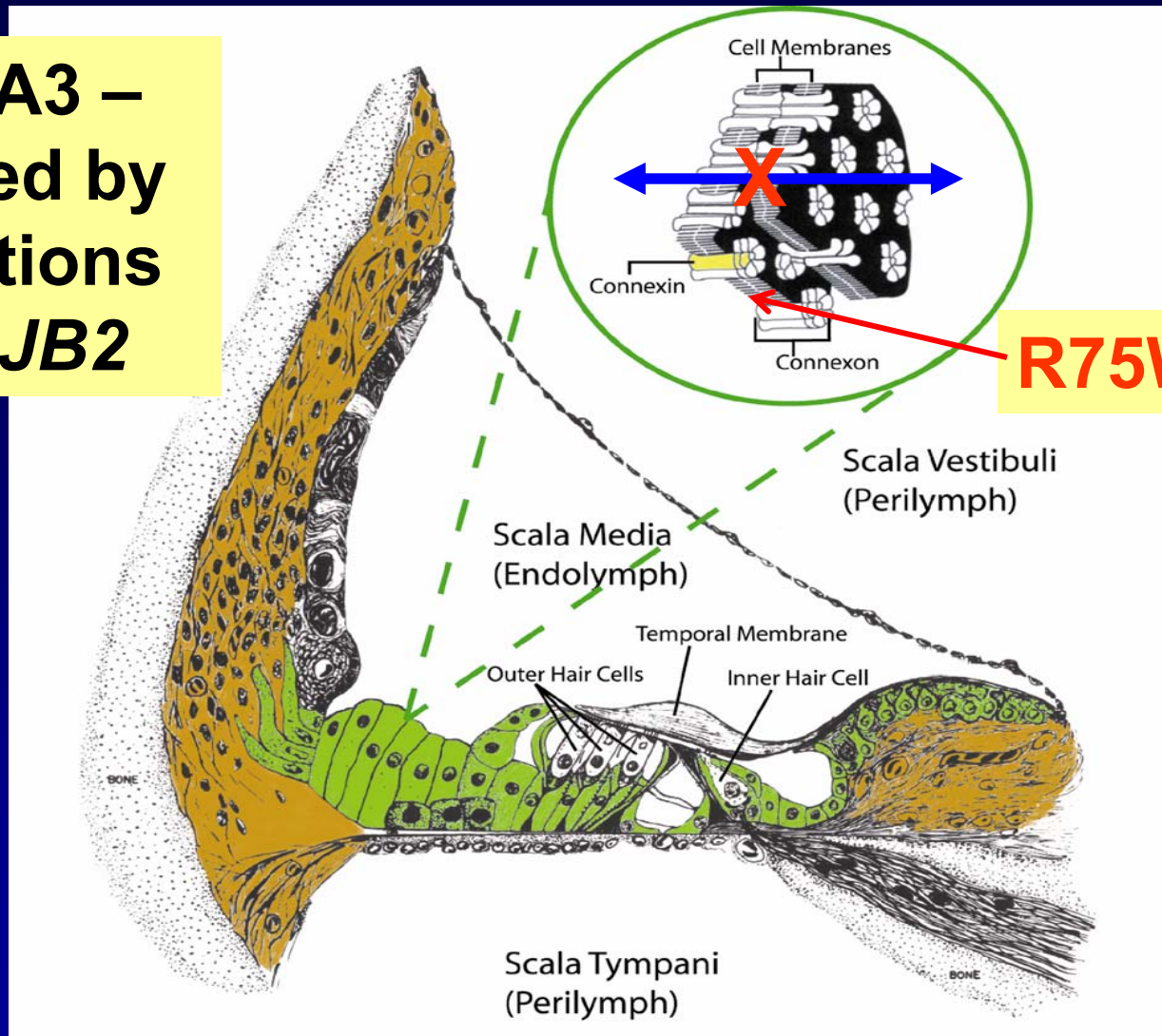
Iowa Center for Auditory Regeneration

Molecular Genetics to Cure Deafness

Richard Smith

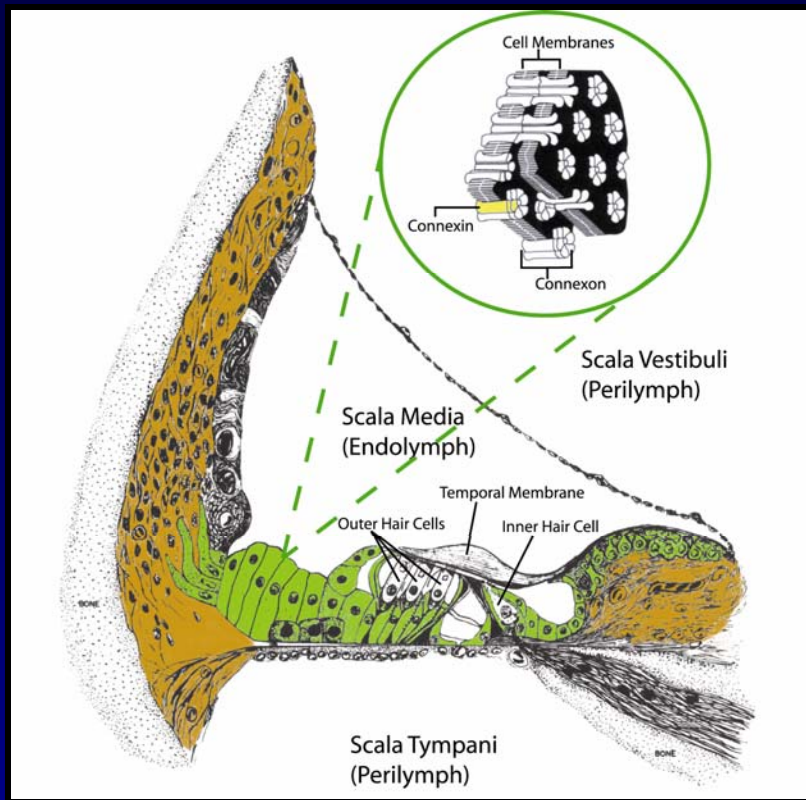


**DFNA3 –
caused by
mutations
in *GJB2***



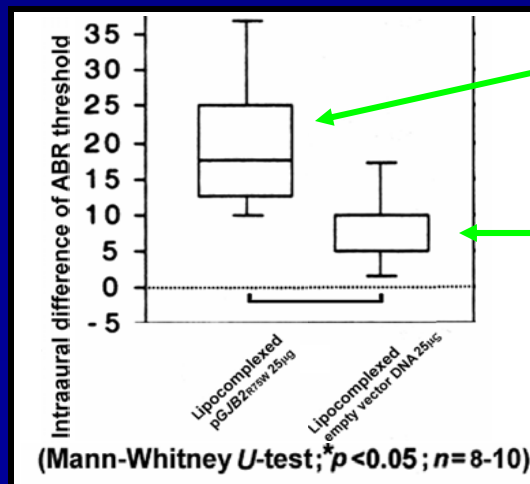
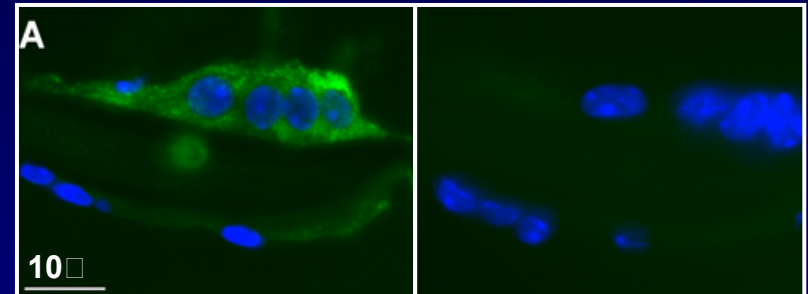
R75W mutation

Goal – to prevent the ear from making this protein and thereby prevent the deafness.



**pGJB2_{R75W}
applied ear**

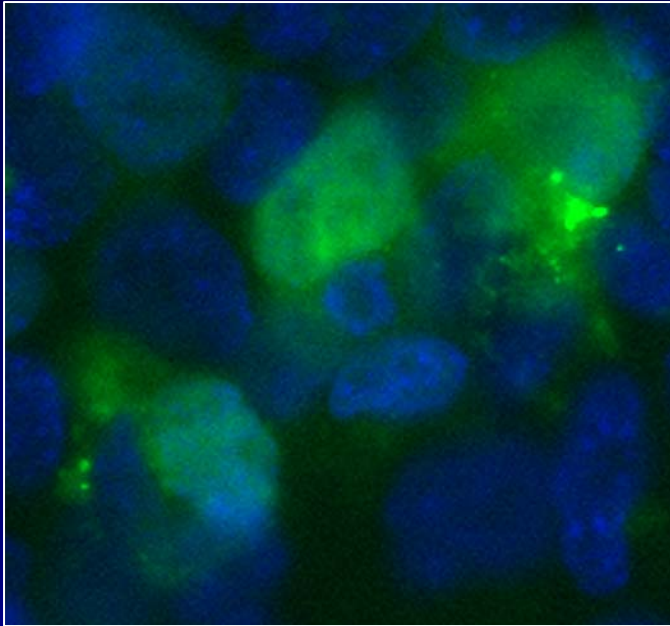
Control ear



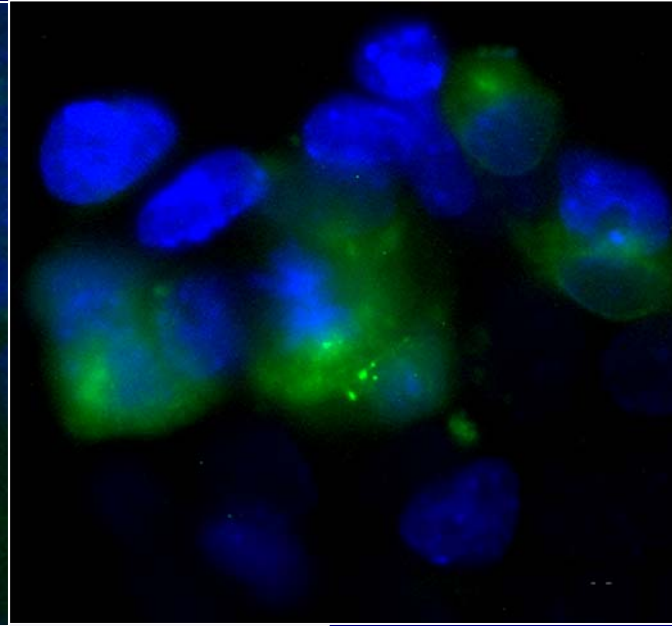
**The protein causes hearing loss
in a mouse.....**

**Normal mice don't have hearing
loss**

Lipofectamine2000
+GJB2-eGFP plasmid

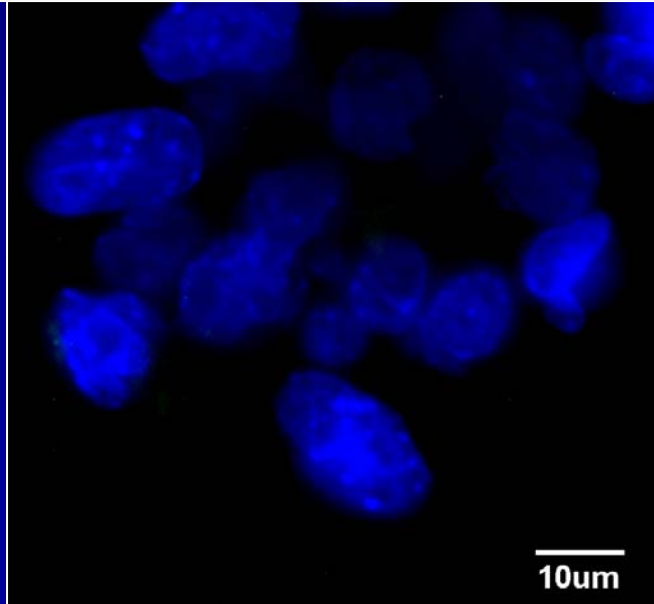


Lipofectamine2000 + GJB2-eGFP
plasmid +Negative control dsRNA



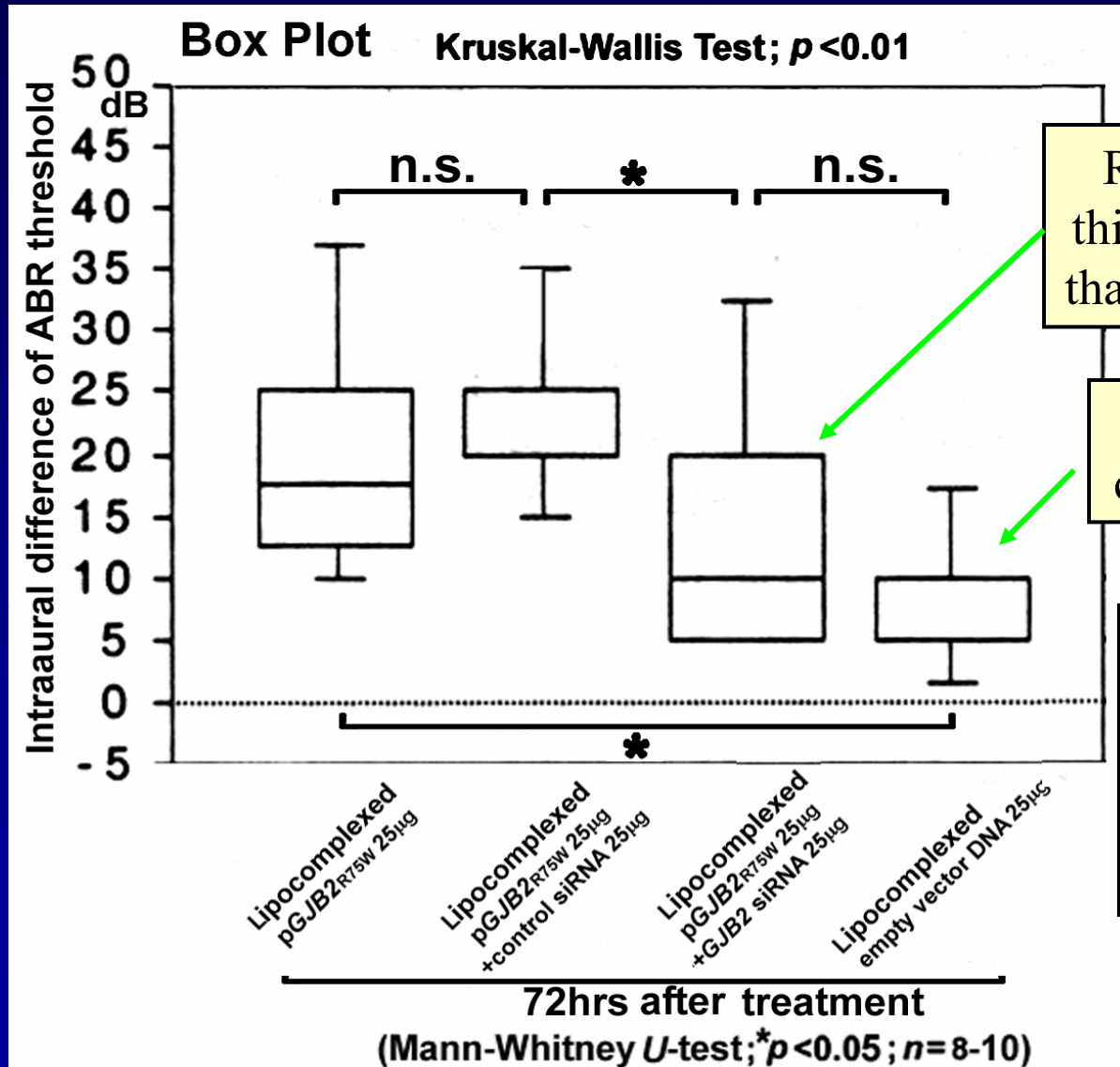
Lipofectamine2000
+GJB2-eGFP plasmid

+siRNA



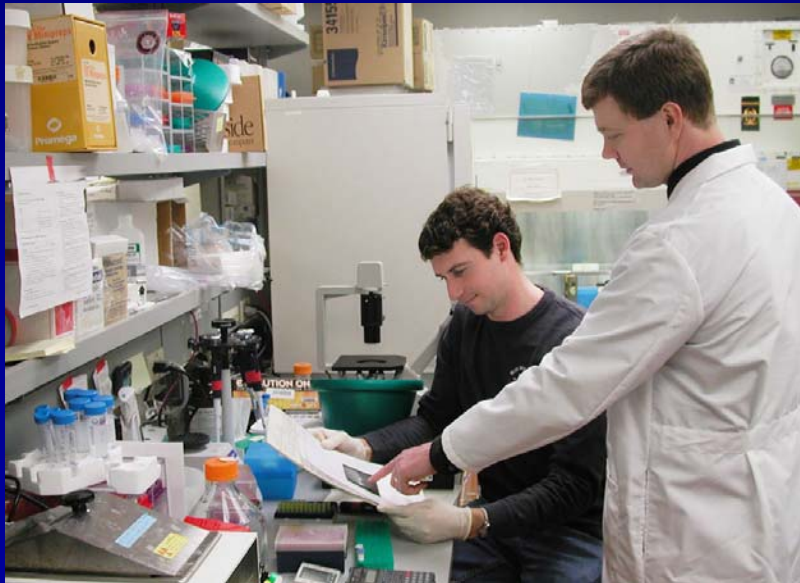
**With RNAi, green
color is gone
and the
deafness-
causing protein
is not made.**

When we add RNAi to the mice that have the deafness-causing protein, they don't get hearing loss.



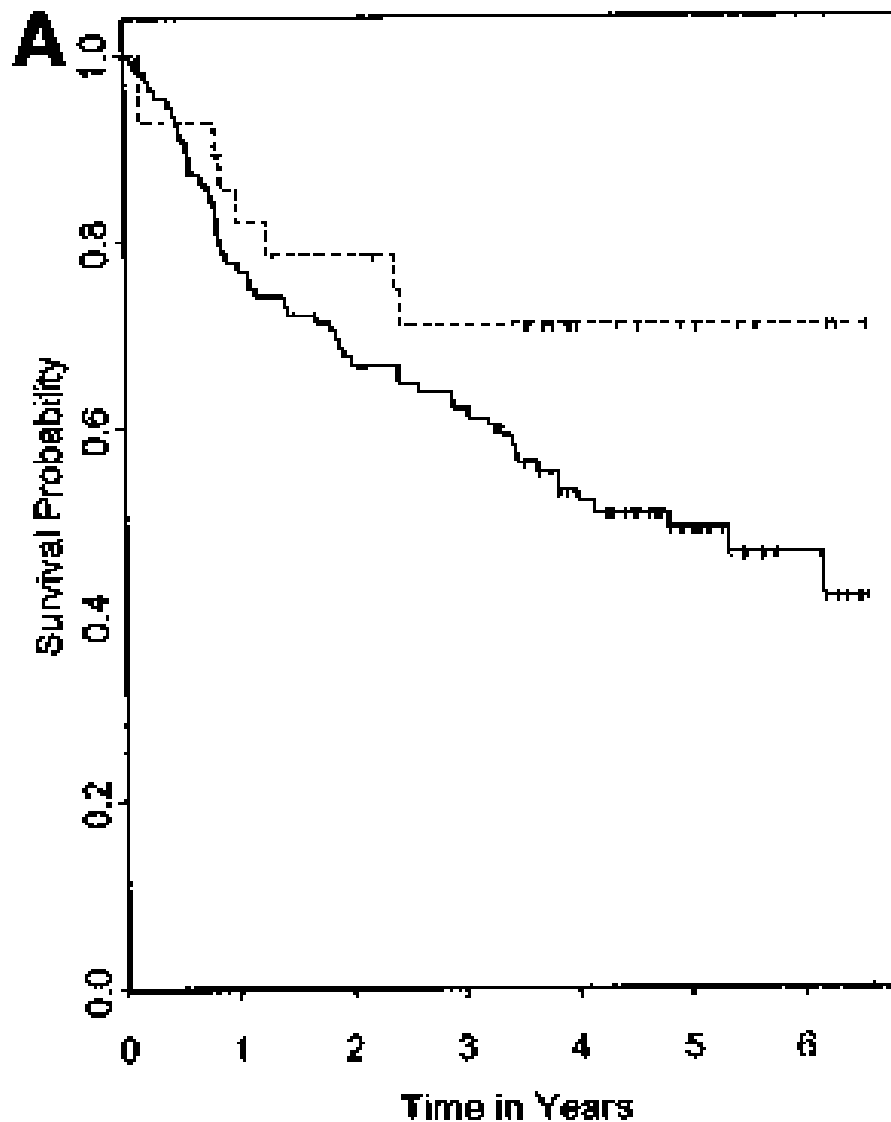
Research: Head and Neck Oncology

**HPV related head and neck cancer:
From men to mice and back again**



John H. Lee

Disease Specific Survival of Mouth and Throat Cancer in Iowa



Stage III or IV

HPV + = 76%

HPV - = 59%

Grade

HPV+ = 41%

HPV- = 19%

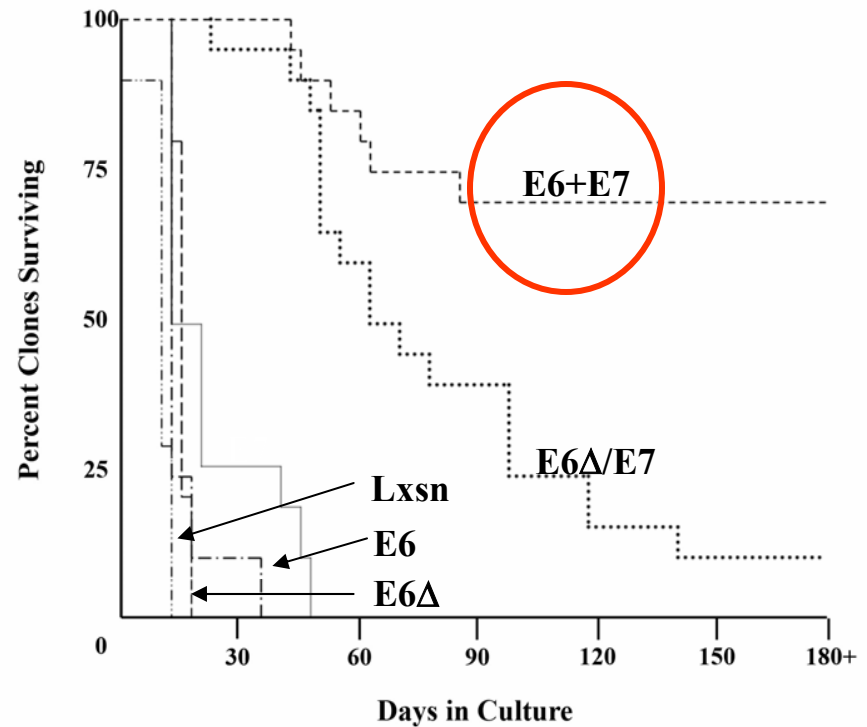
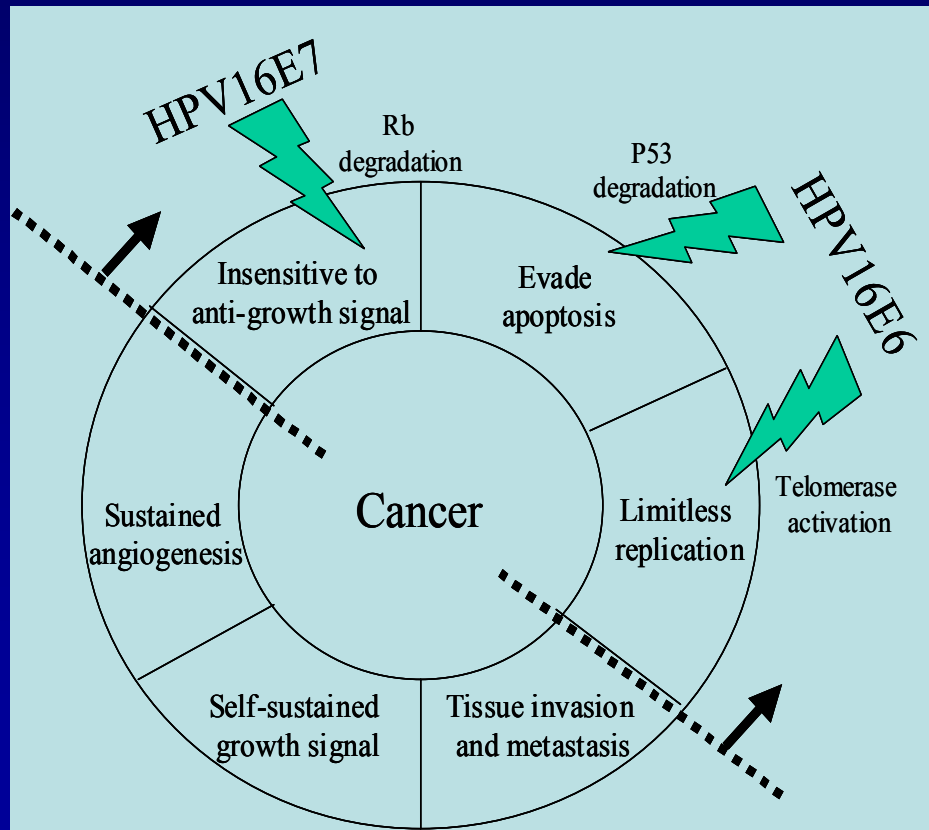
Nodes

HPV+ = 71%

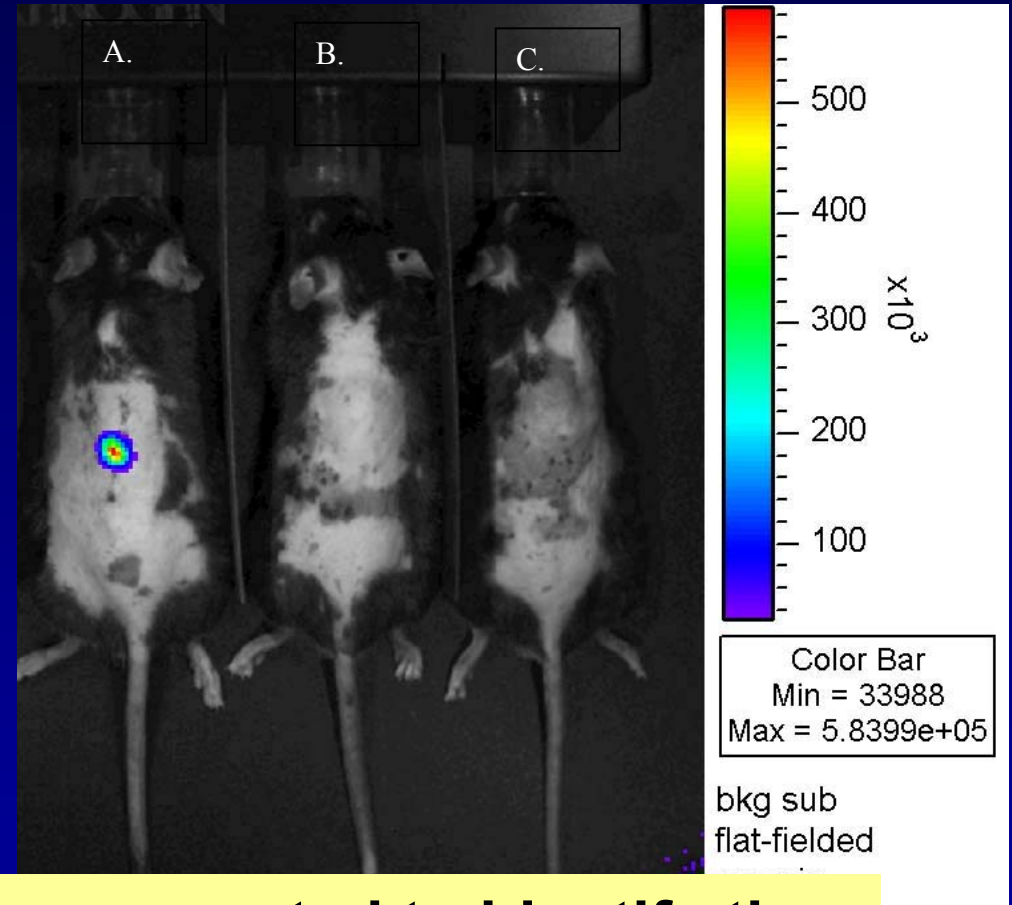
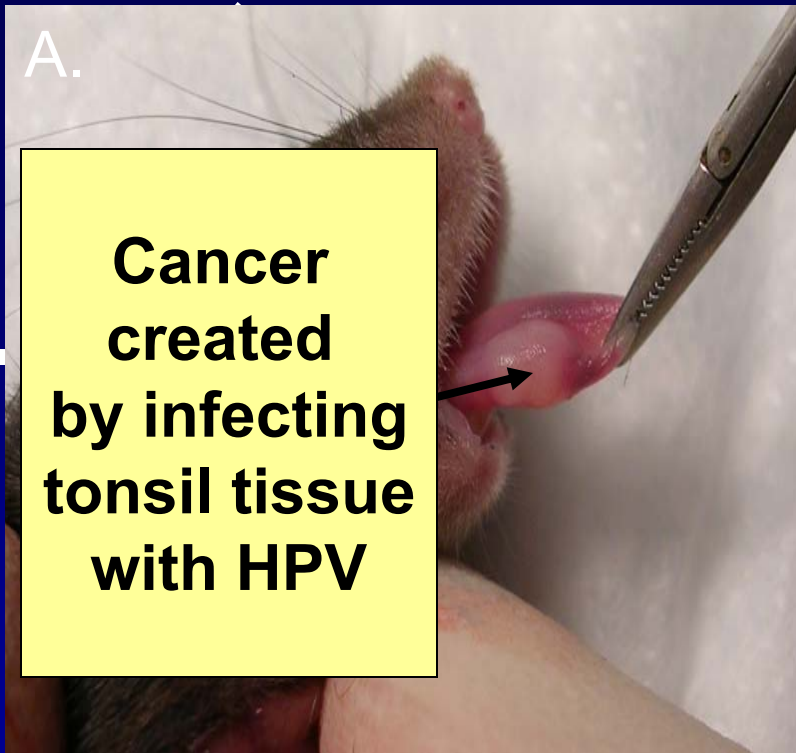
HPV- = 38%

Hallmarks of Cancer

Viral Infections can cause human tonsil cells to become a cancer



HPV positive tonsil cancer in Mice



Assay created to identify the response of tumor to drug therapy

Translational Research

- Dr. Lee's lab has defined the mechanisms of HPV related head and neck cancer.
- Now is in process of designing specific therapies aimed at blocking these mechanisms.
- Dr. Lee's finding will allow us to test therapies directed at curing oral Cancer
- Translational Research: mice to man and back again to cure HPV related Cancer in the head and neck

Conclusion

- **Department of O—H&NS is World Class**
- **Excellent Patient Care**
- **Outstanding Educational Environment**
- **Innovative Research**
- **Economic Engine for State of Iowa**

Operating and Financial Performance Report Through December, 2005

Volume Indicators

July through December 2005

	YTD Actual	YTD Budget	YTD Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Operating Review (YTD)							
Admissions	12,687	13,063	12,708	(376)	-2.9% ●	(21)	-0.2% ○
Patient Days	86,420	86,345	89,129	75	0.1% ○	(2,709)	-3.0% ●
Length of Stay	6.81	6.61	7.01	0.20	3.1% ●	(0.20)	-2.9% ●
Average Daily Census	469.67	469.27	484.40	0.41	0.1% ○	(14.72)	-3.0% ●
Surgeries - Inpatient	5,113	5,080	5,031	33	0.7% ○	82	1.6% ○
Surgeries - Outpatient	5,322	5,594	5,417	(272)	-4.9% ●	(95)	-1.8% ○
Emergency Treatment Center Visits	17,202	16,437	16,194	765	4.7% ●	1,008	6.2% ●
Outpatient Clinic Visits	329,257	345,236	334,481	(15,979)	-4.6% ●	(5,224)	-1.6% ○

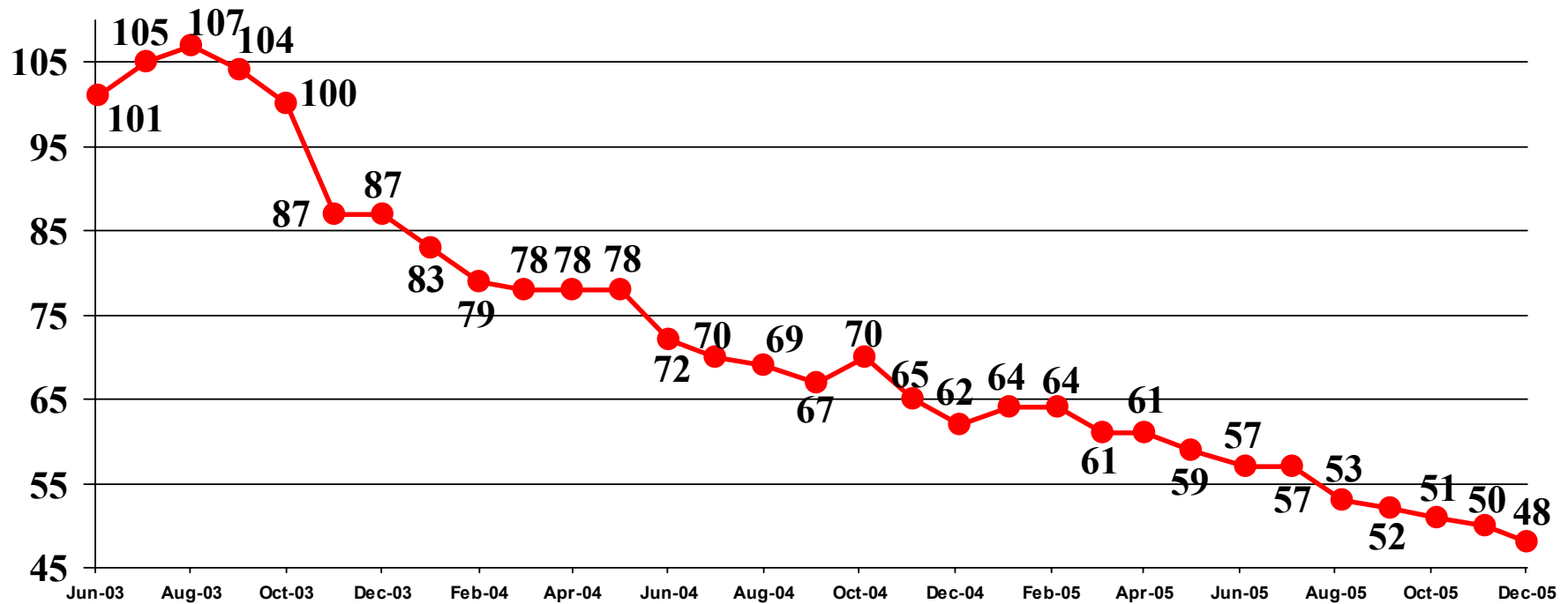
●	○	●
Greater than 2.5% Favorable	Neutral	Greater than 2.5% Unfavorable

Comparative Accounts Receivable *as of December 31, 2005*

Median
Moody's
Aa Rating

	June 30, 2004	June 30, 2005	December 31, 2005	
Gross Accounts Receivable	\$293,860,815	\$278,551,170	\$255,727,257	na
Net Accounts Receivable	\$110,344,338	\$93,964,049	\$82,405,768	na

Net Days in AR	72	57	48	56
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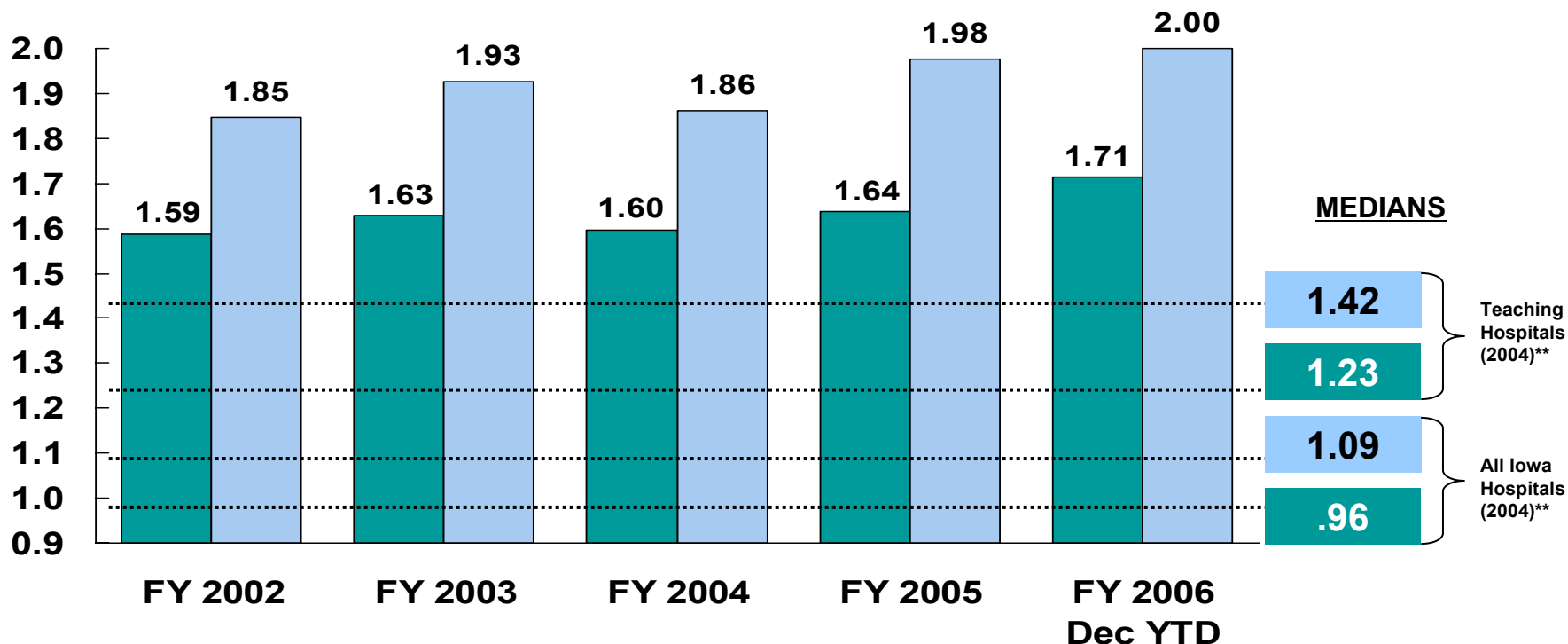


—●— Days of Revenue in Net A/R

UNIVERSITY OF IOWA HOSPITALS AND CLINICS

CASE MIX INDEX - ALL ACUTE INPATIENTS*

CASE MIX INDEX - MEDICARE INPATIENTS*



- THE CASE MIX INDEX REFLECTS THE OVERALL CLINICAL COMPLEXITY OF THE PATIENT CENSUS OF A GIVEN HOSPITAL BY ESTIMATING THE LEVEL OF RESOURCE CONSUMPTION OF THE AVERAGE PATIENT RELATIVE TO THAT OF ALL HOSPITALS NATIONALLY WHICH HAVE A CASE MIX INDEX OF 1.00.
- ALL ACUTE CASE MIX INDEX VALUES SHOWN ABOVE INCLUDE NEWBORN NURSERY
- MEDICARE CASE MIX INDEX EXCLUDES DEPT OF PSYCH

** ALMANAC OF HOSPITAL FINANCIAL OPERATING INDICATORS, 2006 CHIPS
A TEACHING HOSPITAL IS ONE AT WHICH MEDICAL GRADUATES TRAIN AS RESIDENTS.

Comparative Financial Results - July through December 2005

	YTD Actual	YTD Budget	YTD Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
NET REVENUES:							
Total Pay Patient Rev.	\$328,521	\$338,348	\$294,859	(\$9,827)	-2.9%	\$33,662	11.4%
Appropriations	6,703	6,703	20,345	0	0.0%	(13,642)	-67.1%
Other Operating Rev.	19,156	19,522	19,617	(366)	-1.9%	(461)	-2.4%
Total	\$354,381	\$364,573	\$334,822	(\$10,192)	-2.8%	\$19,559	5.8%
EXPENSES:							
Salaries and Wages	\$181,665	\$188,505	\$174,308	(\$6,840)	-3.6%	\$7,357	4.2%
General Expenses	134,957	140,324	127,709	(5,368)	-3.8%	7,248	5.7%
Depreciation	24,719	24,359	24,022	360	1.5%	697	2.9%
Interest Expense	-	-	-	-	0.0%	-	0.0%
Total	\$341,340	\$353,188	\$326,039	(\$11,848)	-3.4%	\$15,302	4.7%
Operating Margin	\$13,040	\$11,385	\$8,783	\$1,656	14.5%	\$4,257	48.5%
Operating Margin %	3.7%	3.1%	2.6%	0.6%	19.4%	1.1%	42.3%

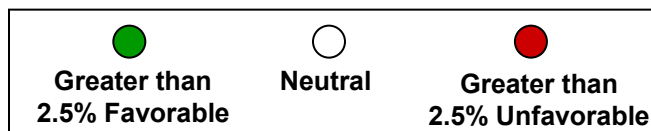
NOTE: all dollar amounts are in thousands

Operating and Financial Performance Report Through February, 2006

Volume Indicators

July 2005 through February 2006

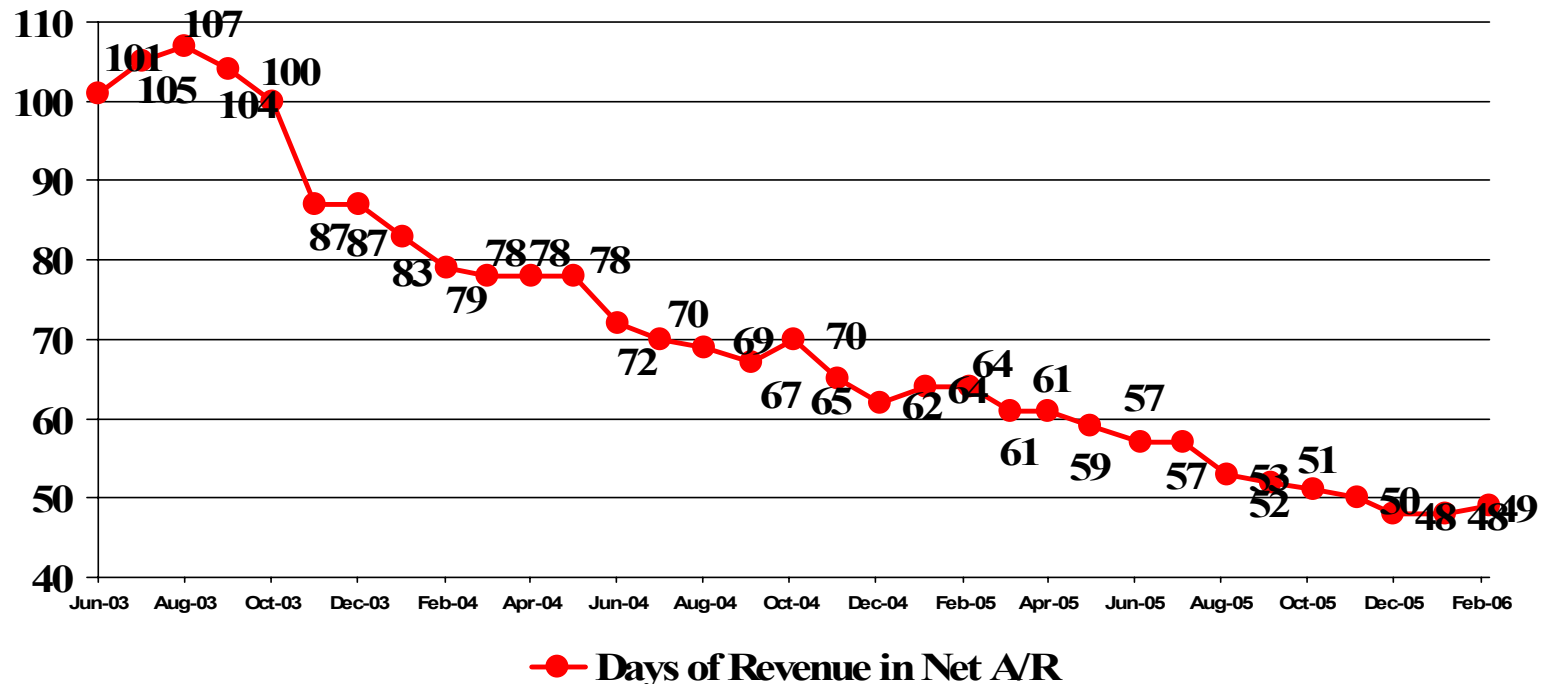
	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
Operating Review (YTD)							
Admissions	16,888	17,135	16,568	(247)	-1.4% ○	320	1.9% ○
Patient Days	114,105	112,707	117,320	1,398	1.2% ○	(3,215)	-2.7% ●
Length of Stay	6.76	6.58	7.08	0.18	2.7% ●	(0.32)	-4.6% ●
Average Daily Census	469.57	463.81	482.80	5.76	1.2% ○	(13.23)	-2.7% ●
Surgeries - Inpatient	6,727	6,606	6,543	121	1.8% ○	184	2.8% ●
Surgeries - Outpatient	7,106	7,267	7,037	(161)	-2.2% ○	69	1.0% ○
Emergency Treatment Center Visits	22,761	21,796	21,474	965	4.4% ●	1,287	6.0% ●
Outpatient Clinic Visits	437,842	451,942	437,863	(14,100)	-3.1% ●	(21)	0.0% ○



University of Iowa Hospitals and Clinics

Comparative Accounts Receivable as of February 28, 2006

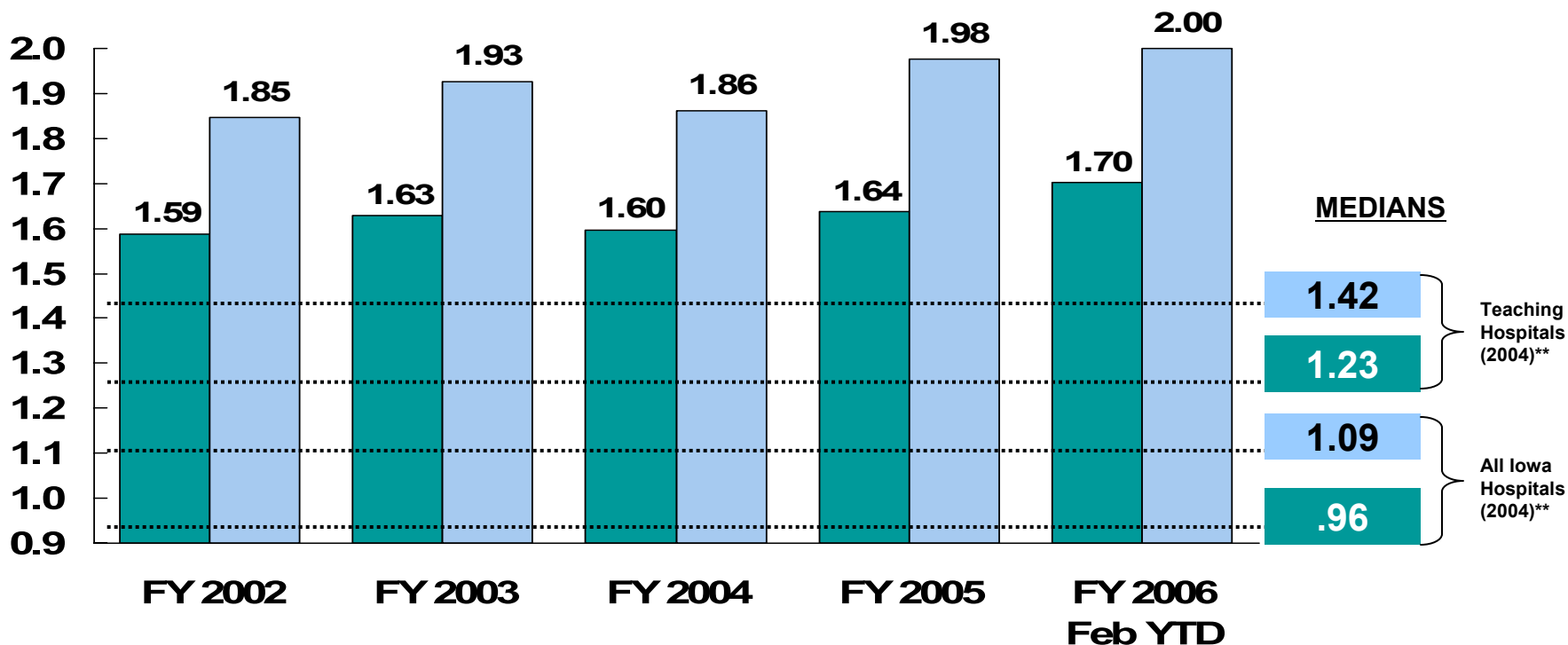
	June 30, 2004	June 30, 2005	February 28, 2006	Median Moody's Aa Rating
Gross Accounts Receivable	\$293,860,815	\$278,551,170	\$254,643,966	na
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Comparative Financial Results

July 2005 through February 2006

	Actual	Budget	Prior Year	Variance to Budget	% Variance to Budget	Variance to Prior Year	% Variance to Prior Year
NET REVENUES:							
Total Pay Patient Rev.	\$438,904	\$444,868	\$391,294	(\$5,964)	-1.3%	\$47,610	12.2%
Appropriations	8,938	8,938	27,127	0	0.0%	(18,189)	-67.1%
Other Operating Rev.	25,429	25,936	26,105	(507)	-2.0%	(676)	-2.6%
Total	\$473,271	\$479,742	\$444,526	(\$6,471)	-1.3%	\$28,745	6.5%
EXPENSES:							
Salaries and Wages	\$243,822	\$248,825	\$233,254	(\$5,003)	-2.0%	\$10,568	4.5%
General Expenses	178,818	184,610	167,141	(5,792)	-3.1%	11,677	7.0%
Depreciation	33,962	32,479	31,950	1,483	4.6%	2,012	6.3%
Interest Expense	-	-	-	-	0.0%	-	0.0%
Total	\$456,602	\$465,914	\$432,345	(\$9,312)	-2.0%	\$24,257	5.6%
Operating Margin	\$16,669	\$13,828	\$12,181	\$2,841	20.5%	\$4,488	36.8%
Operating Margin %	3.5%	2.9%	2.7%	0.6%	20.7%	0.8%	29.6%

NOTE: all dollar amounts are in thousands

FYTD December 2005 Institutional Scorecard

FY2006 Institutional Scorecard

Indicator	FY '05 Actual	Dec-05	FY '06 Target	FY '06 Benchmark
INNOVATIVE CARE				
Market Share	6.9% [A]	n/a [B]	7.3%	3% improvement over CY '04 [A]
Acute Admissions	25,063	25,095 [C]	25,839	UIHC Budget for 2.5 % growth
Clinic Visits	668,456	658,015 [C]	693,348	UIHC Budget for 2% growth
Average Length of Stay	6.99	6.81	6.50	UIHC Budget for 1/2 day reduction
EXCELLENT SERVICE				
External Referrals	179,198	167,118 [C]	184,574	3% average annual growth
Patient Satisfaction - Adult	81.7	82.0	84.0	3% improvement in score
Patient Satisfaction - Pediatric	84.1	84.2	86.6	3% improvement in score
EXCEPTIONAL OUTCOMES				
Observed/Expected Mortality Ratio	0.77	0.78	less than 1.0	UHC
STRATEGIC SUPPORT				
Cost Per Adjusted Discharge	\$8,941	\$8,573	\$8,888	UIHC Budget
Operating Margin	3.03%	3.68%	3.20%	UIHC Budget
Earnings Before Interest, Taxes, Depreciation and Amortization	\$71,937,422	\$75,941,515 [C]	\$71,888,599	UIHC Budget
Employee Vacancy Rate	2.0%	1.9%	3.0%	Internal

**CMI adjusted

[A] FY '05 actual subject to change by IHA for missing data, CY 2004 Market share was 7.1%

[B] FY 2006 Q1 & Q2 expected May 2006

[C] Trended Annual Projection from December 2005 YTD actuals: Acute admissions: 12,687; Clinic visits (UIHC only): 329,257; External Referrals: 84,488 EBITDA: \$37,759,046

Institutional Scorecard Definitions

Indicator	Description	Source
INNOVATIVE CARE		
Market Share	Market share of acute inpatient discharges for Iowa residents from Iowa Hospitals averaged for the last four available quarters [excluding MDC 19 (mental disease), 20 (alcohol/drug) and 25 (HIV), per HIPAA requirements]	Iowa Hospital Association
Acute Admissions	Number of acute adult & pediatric patients admitted (excludes normal newborns)	Hospital Records
Clinic Visits	Total number of UIHC clinic visits (excludes Outreach and Community Medical Services locations)	Hospital Records
Average Length of Stay	Total inpatient days / total discharges for all acute care patients	Hospital Records
EXCELLENT SERVICE		
External Referrals	Total number of visits originating from external referrals	IDX or Report2Web
Patient Satisfaction - Adult	Mean score of adult inpatient surveys (all standard questions) returned for the past 12 months	Press-Ganey Satisfaction Survey
Patient Satisfaction - Pediatric	Mean score of pediatric inpatient surveys (all standard questions) returned for the past 12 months	Press-Ganey Satisfaction Survey
EXCEPTIONAL OUTCOMES		
Observed/Expected Mortality Ratio	Observed mortality rate for 100% acute discharge/ UHC risk adjusted expected mortality rate for the last four available quarters	CORM
STRATEGIC SUPPORT		
Cost Per Adjusted Discharge	Operating costs / ((gross patient charges/total gross inpatient charges) *(total patient admissions excluding newborns) *Case mix index)	Hospital Records
Operating Margin	Operating income/Net operating revenue	Hospital Records
Earnings Before Interest, Taxes, Depreciation and Amortization	Revenue less expenses (excluding interest, tax, depreciation, and amortization)	Hospital Records
Employee Vacancy Rate	Total number of actively recruited positions / total number of allocated positions	HR Database

FY2007 Environmental Assessment

FY2007 Environmental Assessment*

- **Reimbursement Issues and Rates**
 - Medicare
 - Medicaid
 - IowaCare
 - State Institution Patients
 - Others – Commercial, Managed Care, and Self-pay
- **Operating Expenses**
 - Salaries & Wages
 - Benefits
 - Supplies
 - Drugs
 - Medical Directorships
 - Maintenance Contracts
 - Depreciation Expense
 - Other Operating Expense

* Does not include effect of volume increases, charge increases, or payment rate increases from commercial and managed care payors.

FY2007 Environmental Assessment

Reimbursement Issues and Rates

✓ Medicare

- President's proposed FY 2007 Budget
- Proposes "\$36 billion cut" over 5 years.
 - Reduces Medicare inpatient and outpatient hospital payment update by 0.45% in FY 2007 from 3.25% to 2.80%, and reduces payment update by 0.40% in FYs 2008 and 2009.
 - Bad Debt recovery payments phased out over 4 years from 80.0% to 0.0%.
- UIHC Medicare Impact:

	<u>FY 2007</u>
Base	\$161.0 M
Expected Increase	\$ 5.2 M
Reduction	<u>\$ (.6 M)</u>
Revised	\$165.6 M

FY2007 Environmental Assessment

Reimbursement Issues and Rates

✓ Medicaid

- FY2006 – Medicaid Rebasing
- FY2007 – DHS has requested approval from CMS for a 3% Rate Increase
- UIHC Medicaid Projected Impacts:

	<u>FY 2006</u>	<u>FY 2007</u>
Base	\$74.7 M	\$73.7 M
Change	<u>\$(1.0 M)</u>	<u>\$ 2.2 M</u>
Revised	\$73.7 M	\$75.9 M

FY2007 Environmental Assessment

Other Medicaid Issues

- ✓ **Medicaid/SCHIP: proposes \$13.6 billion cut over 5 years**
- ***Highlights:***
 - Phasing down the allowable provider tax rate from 6 percent to 3 percent.
 - Capping "payments to government providers to no more than the cost of furnishing services to Medicaid beneficiaries" (such a proposal presumably will impact intergovernmental transfers and upper payment limits).
 - Medicaid: increased cost-to-collect and bad debts as Medicaid population is moved to having more cost sharing, and Medicaid eligibility limited.

FY2007 Environmental Assessment

Reimbursement Issues and Rates

✓ IowaCare

- UIHC IowaCare over-earning projections based on Iowa Medicaid Rates:

FY06	FY07
\$(11M)	\$(12.2M)
- This assumes IowaCare utilization is flat in FY07. The actual FY07 appropriation is unknown at this point. Above estimate assumes that it is flat at \$27.3M.
- FY06 over-earning may be reduced if DHS/CMS finalizes a plan to add \$5M additional payments in FY06.
- No physician reimbursement.

FY2007 Environmental Assessment

Reimbursement Issues and Rates

✓ State Institution Patients

- State Institution Unpaid (based on Iowa Medicaid Rates)

FY06	FY07
\$(5.5M)	\$(6.2M)
- FY07 assumes a 3% Medicaid rate increase, and a 10% volume increase. As a comparison, FY06 projected over FY05 was a 17% increase.
- No physician reimbursement.

FY2007 Environmental Assessment

Reimbursement Issues and Rates

✓ Others

- Wellmark – FY07
 - UIHC will receive July 1 update proposal on April 1st.
 - Reimbursement structure changes: outpatient surgery will change on 7/1/06 and inpatient will change on 10/1/06.
 - Medicare Advantage – potential long-term movement of patients from traditional Medicare to Managed Medicare Care plans. Potential for erosion of rates and increased denial activity.
- Other Managed Care Payors
 - Movement of Outpatient business to Ambulatory Payment Classification (APC) methodology (vs. percent of charge methodology).
 - Introduction of Health Savings Account (HSA's) in the marketplace will greatly increase the patient's out-of-pocket expense, and result in a rise in the cost-to-collect, and potentially increase bad debt.

FY2007 Environmental Assessment

Operating Expenses

✓ Salaries & Wages

	<u>Percent Change</u>	<u>Increase</u>
• SEIU	4.35 to 4.50%	\$ 4.9 Million
• AFSCME	≈ 5.0%	3.9
• Professional and Scientific	4.5%	3.2
• Other	3.0%	.4

➤ Total Salary and Wages \$12.4 million

➤ Benefits \$10.0 million

FY2007 Environmental Assessment

Operating Expenses

✓ **Supplies**

- Expected medical supply inflation rate of 4.0% causes \$ 3.4 million in supply cost inflation.

✓ **Drugs**

- Expected drug cost inflation rate of 7.0% causes \$ 3.8 million in drug cost inflation.

✓ **Medical Directorships**

- Addition of 84 medical directorships as per the “Purchased Services Agreement” at an annual cost of \$ 2.7 million.

FY2007 Environmental Assessment

Operating Expenses

✓ **Maintenance Contracts**

- Addition of \$1 million annually for linear accelerators and other equipment in the Radiation Oncology Center of Excellence.

✓ **Utilities**

- Increase due to energy costs projected at \$1.9 million.

✓ **Depreciation Expense**

- Increase of approximately \$6.7 million due to the capitalization of various projects.

✓ **Other Operating Expense**

- Inflationary increases on other items ranging from 2.5 to 4.5% resulting in approximately \$3.8 million in annual operating expenses.

Summary FY2007 Environmental Factors

In Fiscal Year 2007, UIHC will:

- face significant cost inflation;
- feel the effects of government rates that are not keeping pace with rising costs – Medicare, Medicaid, IowaCare and State institutions;
- need to build programs and volume;
- need to continue working on improving efficiencies;
- experience unknown rate increases and major reimbursement changes from Wellmark and other commercial payors.

Summary FY2007 Environmental Assessment*

• Reimbursement Issues and Rates	
• Medicare	\$ 4.6 Million
• Medicaid	2.2
• IowaCare	(1.2)
• State Institution Patients	(0.7)
• Others – Commercial, Managed Care, and Self-pay	<u> ?</u>
	\$ 4.9 Million
• Operating Expenses	
• Salaries & Wages	\$12.4 Million
• Benefits	10.0
• Supplies	3.4
• Drugs	3.8
• Medical Directorships	2.7
• Maintenance Contracts	1.0
• Utilities	1.9
• Depreciation Expense	6.7
• Other Operating Expense	<u>3.8</u>
	\$45.7 Million

* Does not include effect of volume increases, charge increases, or payment rate increases from commercial and managed care payors.

IowaCare Update

UIHC Experience with IowaCare and Chronic Care Patients through January 31, 2006

- 13,928 people were enrolled statewide in IowaCare or Chronic Care. Over 18,000 people have been enrolled at some point in time.
- 5,109 different IowaCare or Chronic Care patients have already been seen at the UIHC.
- 31% of the people who have had or currently are scheduled for an appointment at the UIHC previously had a State Paper or an Ortho Paper.
- 22,193 visits for IowaCare or Chronic Care patients have already occurred at the UIHC.
- Anticipated Medicaid reimbursement associated with the UIHC services is \$20.9 M while the equal monthly payments received total \$15.9 M.
- The value of donated physician services at the UIHC for IowaCare or Chronic Care patients not counted against the appropriation is \$20.4 M.
- The UIHC has subsidized patient transportation for IowaCare and Chronic Care patients by \$0.5 M.

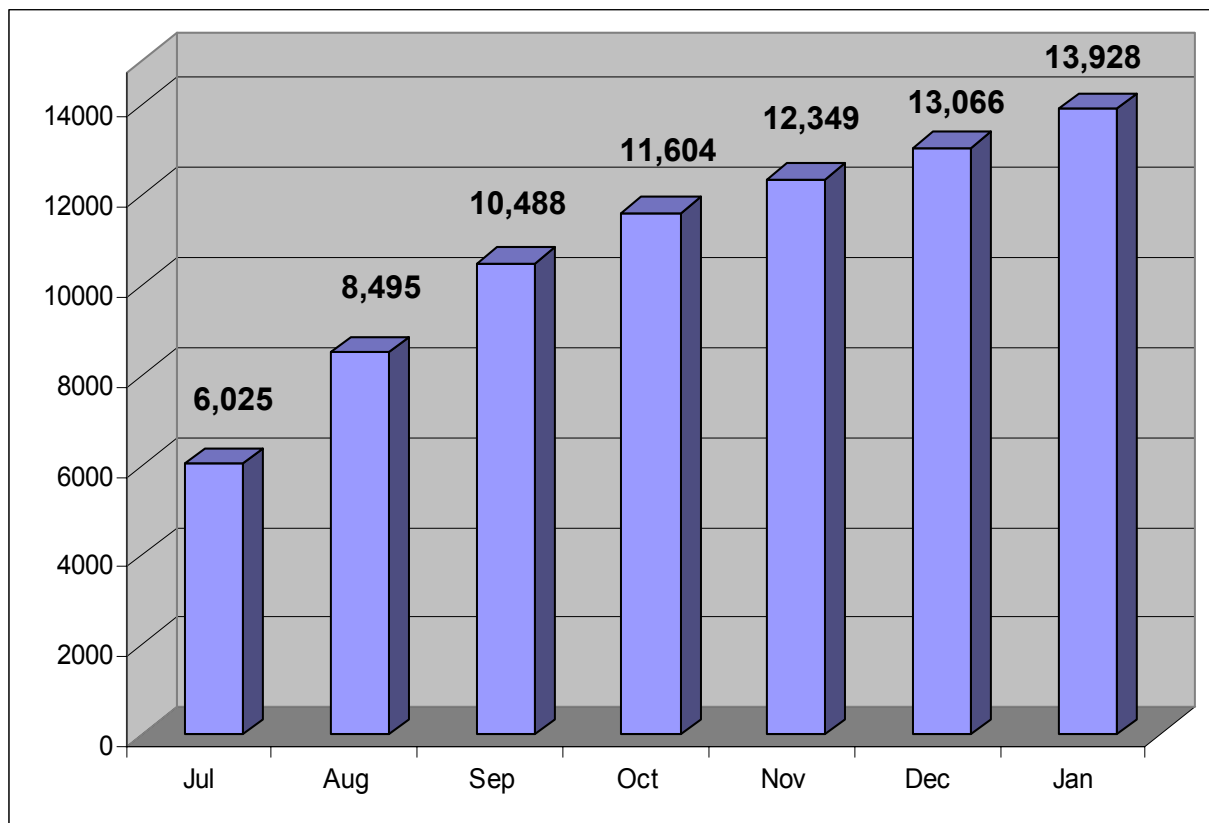
IowaCare Makes Up Most of Iowa's Lost Intergovernmental Transfer (IGT) Funding

- IowaCare is financed by utilizing local, state and federal dollars totaling \$90.2 M.
- State and local funding consists of money previously devoted to the Indigent Patient Care Program, a portion of the Polk County tax levy dollars used to support Broadlawns, state dollars previously devoted to care at the state mental health institutes, and some state money utilized for disproportionate share payments.
- IowaCare beneficiaries may only receive covered services at Broadlawns (Polk County residents only), a mental health institute (Cherokee, Clarinda, Independence, or Mt. Pleasant), or the University of Iowa Hospitals and Clinics.
- By making people previously served with state and local dollars eligible for Medicaid match, the state reduces its cost of caring for these people by approximately 2/3rds (the Federal match rate).
- Iowa expects to replace all but \$12.9 M in revenues lost from discontinuation of intergovernmental transfers.

IowaCare Program Features

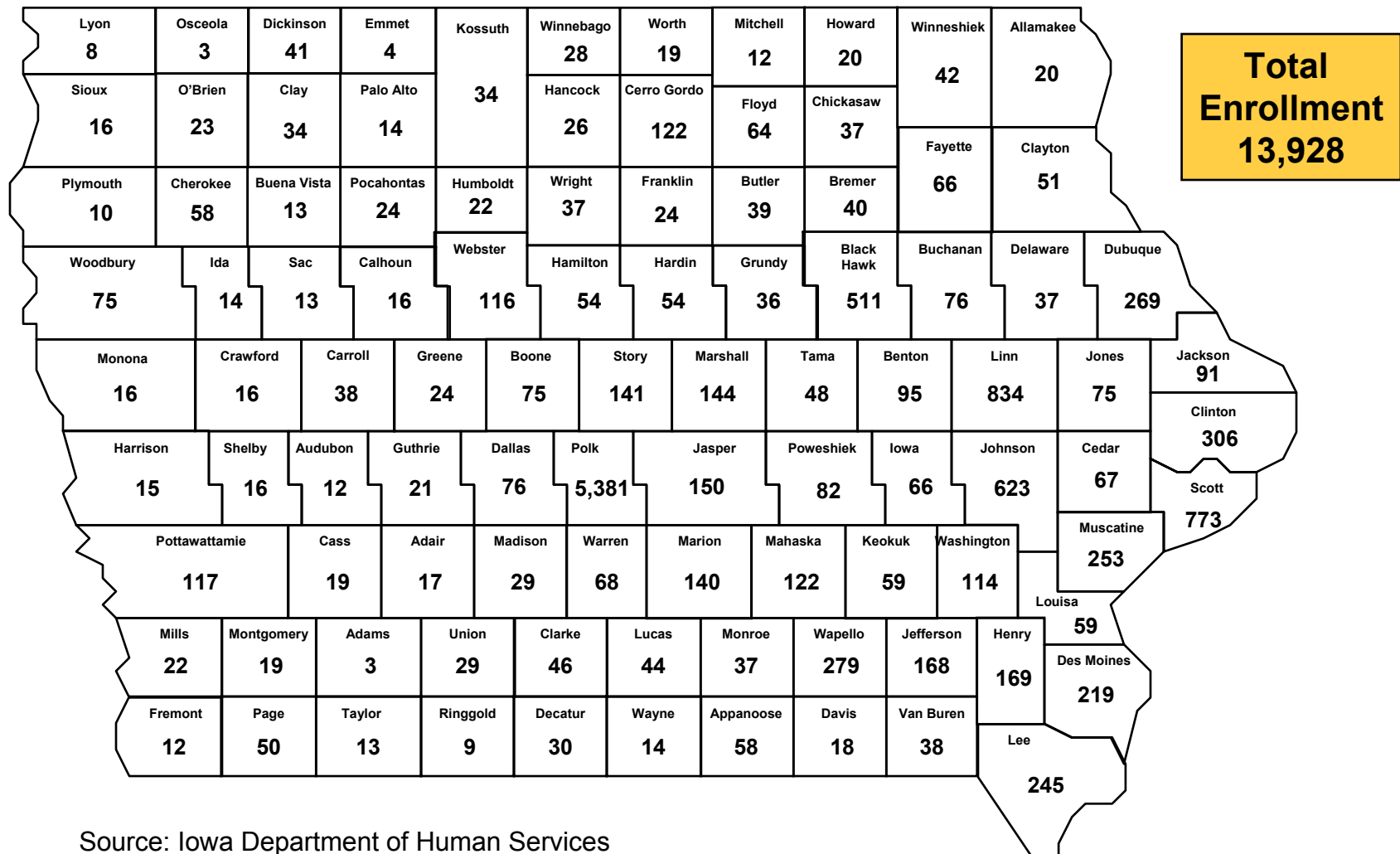
- Premium payment requirement
- Potential for mid-year benefit reductions
- Limited retroactive coverage, if requested at time of application
- Lack of Drug & Durable Medical Equipment coverage
- Lodging not covered
- Transportation not required

IowaCare & Chronic Care Enrollment (net of disenrollments)



Source: Iowa Department of Human Services

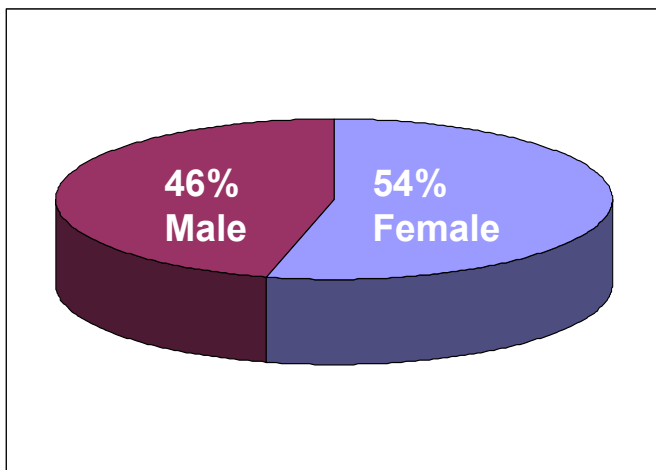
Enrollment in IowaCare & Chronic Care as of January 31, 2006 (net of disenrollments)



Source: Iowa Department of Human Services

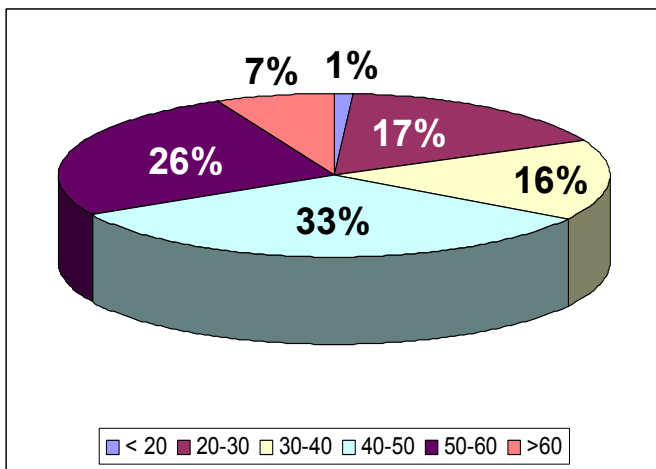
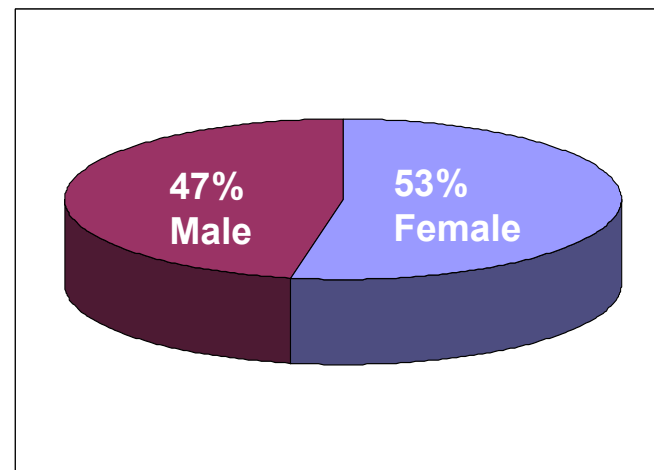
Demographics

IowaCare

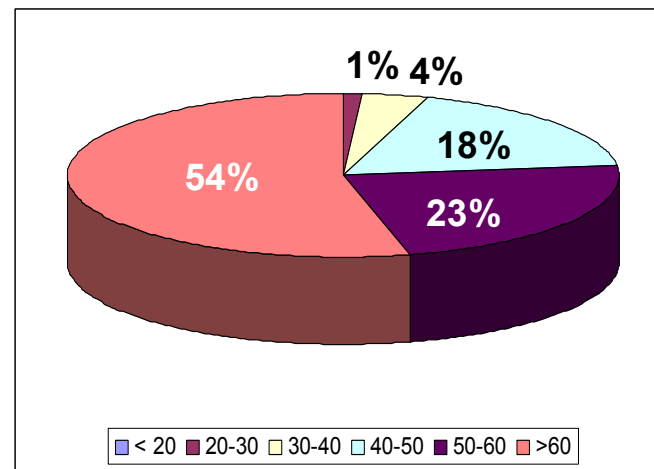


Gender

Chronic Care



Age



Most Common DRGs for IowaCare Patients Seen at the UIHC through January 31, 2006

Rank	DRG
1	25 Seizure & Headache Age > 17 w/o CC
2 tie	410 Chemotherapy w/o Acute Leukemia as 2 nd Diag
2 tie	124 Circulatory Disorders except AMI, w Card Cath & Complex Diag
2 tie	148 Major Small & Large Bowel Procedures w CC
2 tie	202 Cirrhosis & Alcoholic Hepatitis
6	125 Circulatory Disorders Except AMI, w Card Cath w/o Complex Diag
7	415 O.R. Procedure for Infectious & Parasitic Diseases
8	449 Poisoning & Toxic Effects of Drugs Age > 17 w CC
9	75 Major Chest Procedures
10 tie	418 Postoperative & Post-Traumatic Infections
10 tie	143 Chest Pain

Most Common Outpatient Diagnoses for IowaCare Patients Seen at the UIHC through January 31, 2006

Rank	Diagnosis
1	V58.0 Encounter for RadioRx
2	250.00 DM2/NOS Uncomp NSU
3	401.9 Hypertension NOS
4	786.50 Chest Pain NOS
5	724.2 Lumbago
6	070.54 CHR VH c w/o COMA
7	V58.49 Oth Spec P/O Aftercare
8	789.00 Abdominal Pain – Site NOS
9	719.46 Joint Pain – Lower Leg
10	366.16 Senile Nuclear Cataract

Prescription Drug and Durable Medical Equipment Coverage

- Inpatient medications as well as discharge prescriptions for IowaCare recipients are covered (up to 10 days post discharge) but then it is the patient's responsibility to pay for any continuing needs.
- Drugs administered during a clinic visit are covered.
- Prescriptions to be used on an outpatient basis are not covered, except that former State Papers recipients with chronic conditions continue to receive drugs associated with their chronic condition but do not have coverage for new conditions.
- IowaCare does not provide outpatient DME coverage.
- A random chart audit of IowaCare outpatients seen at the UIHC found 26% made reference to necessary DME items.
- As discussed at the last Board of Regents meeting, the UIHC estimates additional funding of \$3-5 M would be needed to cover outpatient prescriptions for its IowaCare patients, and an additional \$1 M would be needed to cover the DME needs of this same patient population.

DHS's IowaCare Medical Claims Projections for FY 06

Provider	Appropriation Per HF 841	Projected IowaCare Medical Claims
Broadlawns	\$38,500,000*	\$14,294,864
Mental Health Institutions	\$25,874,211	\$13,779,821
University of Iowa Hospitals and Clinics	\$27,284,584	\$37,862,932

Source: Iowa Department of Human Services, March 2006

* Original appropriation was \$37 million, but DHS estimates that Broadlawns will receive an additional \$1.5 million in Disproportionate Share Hospitals funding.

Director's Report

Donna Katen-Bahensky

Director and Chief Executive Officer

Director's Report

- I. Updated Annual Work Plan
- II. Economic Impact / Community Benefit
- III. Recognition and Awards
- IV. Lean Sigma
- V. ACGME Site Visit
- VI. Supply Chain Initiatives
- VII. Ambulatory Care RFP
- VIII. Clinical Information System
- IX. Staff Engagement Survey
- X. Patient Safety Unit
- XI. Iowa Healthcare Collaborative
- XII. Other

Updated Draft of Trustees' Annual Work Plan

<p>May 3-4, 2006 Cedar Falls</p>	<p>June 21-22, 2006 Okoboji</p>
<ol style="list-style-type: none"> 1. Director's Report 2. Operating and Financial Performance Report for Third Quarter FY2006 3. Update on IowaCare 4. Preliminary FY2007 Budget and Proposed Rate Increase 5. Investment in Recruitment of Clinical Leadership with CCOM 6. Information Technology Strategies and Applications – Mr. Lee Carmen and Dr. Dan Fick 	<ol style="list-style-type: none"> 1. Director's Report 2. Operating and Financial Performance Report Through April, 2006 3. Update on IowaCare 4. Final FY2007 Budget and Rate Increase Approval 5. Hospital-to-hospital Transfers

UIHC Economic Impact

	Johnson County	State of Iowa
Direct Health Care Jobs	7,158	7,480
Total Jobs Tied to UIHC	12,404	16,027
Direct Worker Income	\$338 M	\$349 M
Total Income Tied to UIHC	\$458 M	\$610 M
Taxable Retail Sales	\$165 M	\$212 M
Sales Tax Revenue	\$8.3 M	\$10.6 M

Sources: Minnesota IMPLAN Group, Inc., Iowa Hospital Association, UIHC Audited Financial Statement

Recognition and Awards

- Women of Influence
 - Linda Q. Everett
- Doctor's Day at UIHC
- BlueCross BlueShield National Center of Excellence in Bariatric Surgery
- Lung Transplants
 - UIHC received approval for a lung transplant program from UNOS

Lean Sigma – Center for Digestive Diseases

(February 13 – 17, 2006)

- Focus Areas
 - Patient Flow – improving patient satisfaction by reducing wait time and overall length of stay
 - Slot Availability (Capacity) – improving patient and referring doctor satisfaction by expanding access and reducing the lead time from Consult to Procedure
- Initial State (example)
 - Patient can wait in one of 4 different areas after check-in
 - If delayed, patient may wait in some other remote area (library, cafeteria, etc.)
 - Patient's family could be in any of these locations
- After Improvements (example)
 - Patient and family provided with pager at check-in
 - No lost staff time searching for patients or family
 - Patient and family are processed more quickly
 - Patient and family satisfaction is improved due to timely feedback of patient status and results



ACGME Site Visit

- The Accreditation Council for Graduate Medical Education is a private, non-profit council that evaluates and accredits medical residency programs in the United States.
- The Accreditation Council for Graduate Medical Education (ACGME) is responsible for the Accreditation of post-MD medical training programs within the United States. Accreditation is accomplished through a peer review process and is based upon established standards and guidelines.
- ACGME conducted a site visit at UIHC on March 7, 2006.
- Surveyor met with GME Office Staff, Residents, Program Directors, Hospital Director and CEO.

Supply Chain Initiatives

- Savings YTD December: \$3.9 Million
- Disposable endo-mechanical device standardization
 - Annual savings projected at \$500,000
- PeopleSoft Inventory Management Implementation
 - Recently completed fit-gap analysis
 - Official project kick-off held on March 8, 2006
 - Next steps: define project charter
- Vendor Fairs
 - Monthly vendor fairs for outside vendors to showcase products and demonstrate cost-saving technologies
 - Internal vendor fairs to acquaint staff with economical options for acquiring supplies from internal sources

Ambulatory Care Consultation

- RFP issued for consultation services to determine the best organizational, management, operational, and financial structure for the ambulatory clinics.
 - December 22, 2005: Issuance of RFP
 - January 9, 2006: Due Date for Vendor Questions
 - January 13, 2006: Responses to Vendor Questions Issued
 - January 18, 2006: Due Date for RFP
- RFP sent to five vendors, three submitted a response
 - March 9-10, 2006: Vendor presentations (2 finalists)

Clinical Information System

- Seeking fully functional integrated solution for a Clinical Information System that meets the needs of research, ambulatory and inpatient settings.
- The scope of this effort includes:
 - Computer-based Patient Record (CPR)
 - clinical documentation
 - order entry
 - Pharmacy Management
 - Laboratory Management
 - Radiology Management

Clinical Information System – Project Overview

Phase I: RFP Development *(Aug 23- Dec 14)*



Phase II: Vendor Evaluation and Selection *(Feb 10 – Jun 26)*



Clinical Information System – Vendor Evaluation

- **Round 1**: Initial Requirement Review, all proposals (2/10 –2/27)
 - Select up to 5 vendors to proceed to Round 2, based on responses to the critical requirements
- **Round 2**: Full Proposal Evaluation, up to 5 proposals (2/27–4/03)
 - Evaluation review teams score vendor RFP responses
- **Round 3**: Due Diligence, up to 3 proposals (4/03-5/30)
 - Due diligence activities will include reference checks, market and total cost analysis from Gartner Group and ‘side-by-side’ vendor presentations & demonstrations
- **Round 4**: Final Selection, one of 2 proposals (5/30-6/26)
 - Contract initiation, site visits, review best and final offers

*** Vendor demonstrations are scheduled for May 15-19 ***

Staff Engagement Survey

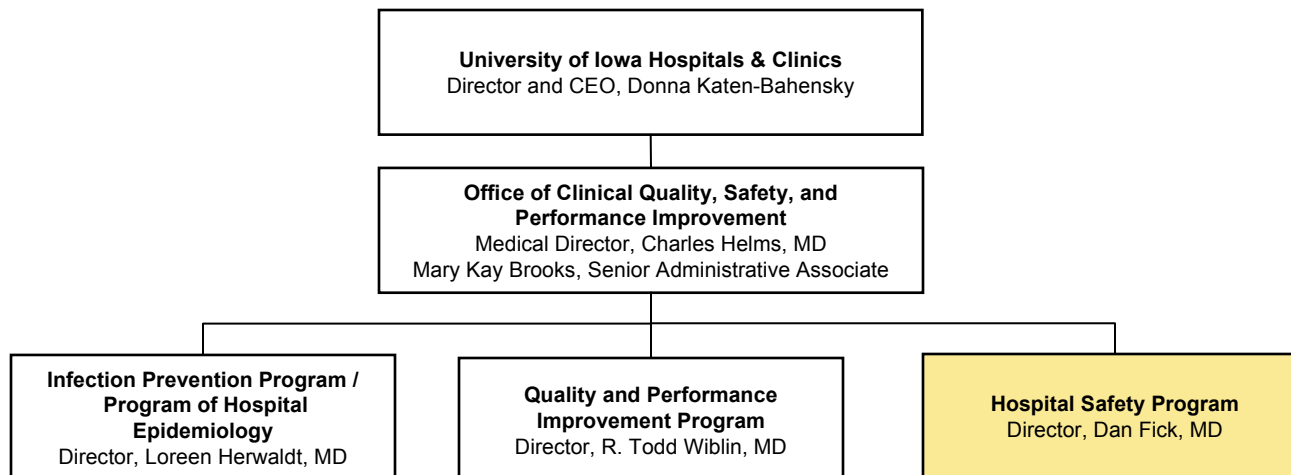
- Employee engagement occurs when individuals feel that their contributions are integral to the excellence of their workplace.
- Workforce commitment is defined as employees' emotional attachment to, identification with, and involvement in the organization.
- UIHC will survey staff to gauge the overall level of engagement/commitment within the organization.
- Morehead Associates, an employee opinion survey firm, will conduct the UIHC survey in April of 2006.
- Goals of the survey:
 - Evaluate employees' perceptions on workplace issues linked to high performance
 - Guide action planning efforts at the work-unit level
 - Strengthen organization-wide communication
 - Measure improvement

Iowa Healthcare Collaborative

- The Iowa Healthcare Collaborative (IHC) was formed in January 2004 to provide direction to the various quality, safety and value improvement collaborative efforts by hospitals and physicians.
- IHC promotes an Iowa health care culture of continuous improvement.
- IHC initiatives focus on provider-directed efforts in the areas of data, education, communication and the conduct of specific projects.
- IHC receives support from:
 - The Iowa Hospital Association,
 - The Iowa Medical Society,
 - Iowa Health System,
 - Mercy Health Network,
 - The University of Iowa College of Public Health, and
 - The University of Iowa Hospitals and Clinics.

Patient Safety Unit

- The Office of Clinical Outcomes and Resource Management (CORM) was reorganized to highlight and facilitate a formal role in coordinating hospital patient and staff safety through a Safety Program.
- A UIHC Safety Officer, Dr. Daniel Fick, has been identified, and two professional staff have been allocated for the Safety Program.
- Activities and timelines from the new strategic plan applicable to the Safety Program have been assigned.



Baldrige Steering Committee

- Steering Committee held its first meeting in December, 2005.
- Two UIHC staff members, Debbie Thoman and Beth Houlahan, visited Baptist Leadership Institute in February to learn more about best practices.
- Completed “Are We Making Progress” internal assessment.
- Future:
 - Review of application timeline
 - Assignment of criteria to members
 - Identification of co-chairs for the seven Baldrige criteria
 - Steering Committee retreat in April
 - Teresa Wahlert, Regent (Board of Regents, State of Iowa)
 - Ingrid Filibert (Baldrige Examiner)
 - “Quest for Excellence” retreat in Washington D.C., April 23-26
 - Next Steering Committee meeting on March 10

Partnership Discussion

- What are the critical factors that must be present for partnerships to be considered successful and how do we monitor them?
- What is the importance of the UIHC brand and how could a partnership potentially dilute brand equity?
- Are there concerns about the diffusion of scarce capital and limited management resources?
- Are we potentially establishing unrealistic expectations for improved access to specialist physicians, in too short a time?
- How do we maintain confidentiality as necessary during partnership development?